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THE UNIVERSITY OF ALBERTA
CANADIAN ENVIRONMENTAL INFLUENCES AND THEIR EFFECT UPON
ORGANIZATIONAL EFFECTIVENESS:
AN EXPLORATORY EXAMINATION

by



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The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies for acceptance, a thesis entitled "Canadian Environmental Influences and Their Effect Upon Organizational Effectiveness: An Exploratory Examination" submitted by Milt G. Pahl in partial fulfilment of the requirements for the degree of Master of Business Administration.

Date July 6, 1971

ABSTRACT

This exploratory study was undertaken with a view towards determining if a dynamic systems framework for analysis could be used to better structure a general overview of how the elements within the totality of the Canadian environment affects the organizational behavior and effectiveness of business enterprises functioning within that environment.

The dynamic systems framework developed by Rolf E. Rogers was employed as the basic analytical framework within which environmental constraints were identified and categorized.

The objective of the study was to provide a basis upon which further research could proceed in quantifying hitherto unquantified environmental influences upon organizational behavior and effectiveness, and then incorporate such data with environmental constraints that are more generally thought to be quantifiable.

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Appreciation is also due to Marlene, who although a better wife than a typist, rose admirably to both tasks.

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CHAPTER I

Environmental Constraints and Organizational Effectiveness

Purpose of Study

The purpose of this research is to examine, within the framework of a dynamic systems model, the concept of a Canadian society or unique Canadian environment, and to identify some of the variables within that environment that most affect Canadian organizational effectiveness. Organizational effectiveness is defined in terms of the efficient transformation of resource inputs into output combinations of higher value to the organization. This exploratory research will attempt to improve the degree of understanding of the unique Canadian environment and its interrelationships with organizational behavior and effectiveness of individual organized units within this society. This research will be exploratory in the sense envisaged by Selltitz et.al. where exploratory studies are employed to "gain familiarity with a phenomenon or to achieve new insights into it, often in order to formulate a more precise research problem or to develop hypotheses."¹ This study will also suggest a quantitative approach to analysis of the variables and interrelationships presented here that could be employed in further research beyond the scope of this paper.

¹Claire Selltitz, Marie Jahoda, Morton Deutsch, and Stuart W. Cook, Research Methods in Social Relations, revised edition, (New York: Holt, Rinehart and Winston, 1959). p. 50.

Increased understanding of the interrelationships between individual organizations and their operating environment is expected to be useful in two ways. The first is as a tool for the individual firm's management who, if aware of the external or environmental constraints which directly affect its performance, is in a better position to lessen the effect of those negative constraints which can be partially overcome. Second, use of the material in the area of macromanagement or governmental planning may be fruitful. For example, if certain environmental constraints that impose severe limitations upon the effectiveness of certain organizations can be identified, it may be possible, and socially beneficial, to alter the environment to facilitate increased organizational effectiveness.² A case in point could be the repeal of the Canadian Combines Investigation Act which prohibits most forms of monopoly.³

Problem Analysis

Naeyele, in Canadian Society, develops the concept of a society, in general, and specifically, Canadian society. A society, according to Naeyele, has the following elements:

- (i) a society is a relatively autonomous and inclusive social system.
- (ii) it occupies definite territory.
- (iii) it lives within visible borders [which] are imbued with political and legal meaning. The notion of Sovereignty is part of this meaning.

²R.N. Farmer and B.M. Richman, Comparative Management and Economic Progress, (Homewood: Richard D. Irwin, Inc., 1965). pp. 402,403.

³Ruben C. Bellan, Economics and the Canadian Economy, (Toronto: McGraw-Hill, 1960), Chapter Seven.

(iv) Society, furthermore, provides for its own continuity through explicit institutions that regulate human reproduction. It may, in addition, encourage immigration or engage in conquest. But it has room for the begetting and raising of children - and for death.⁴

Canadian society exists within the world community, and in part, is affected by it. Canadian society is represented in multi-national organizations such as N.A.T.O. and the United Nations, but, for analytical purposes, the concept of a delineated unique nation-state, Canada, is used.

A major qualification is in order at this point. No study of Canadian society could claim to be complete without recognizing the duality of Canadian society. This duality is best recognized by linguistic differences. Approximately one quarter of Canada's population resides in Quebec, and, according to the 1961 Census, 87 percent of that population speaks French. In New Brunswick 38 percent of the population speak French. In all other provinces the percentage speaking French is less than 10 percent.⁵ Quebec, on the basis of language differences particularly, could be regarded as a sub-nation within Canada. A similar, albeit weaker, case could be stated for the Province of New Brunswick. Accordingly, this study will redefine Canadian society to mean English-speaking Canadian society in Ontario and the Western provinces. The environment, for the purposes of this study, is defined so as to encompass the physical and societal totality that is Canada, subject

⁴Kaspar D. Naegele, "Canadian Society: Some Reflections", in Bernard R. Blishen, et.al. editor, Canadian Society (Toronto: Macmillian Company, 1961) p. 5.

⁵Canada, Dominion Bureau of Statistics, Canada 1970 (Ottawa: Queen's Printer, 1969), p. 105.

to the above qualification.

This is not to say that the "French fact" will, from this point be ignored; that would be impossible, for, as will be developed later, much of what is Canadian society is a direct and indirect result of the duality seemingly dismissed in so cavalier a fashion. The omission of Quebec and the Maritimes is pleaded on the grounds of providing analytical clarity. Once the analytical framework central to this study is developed, it may be applied provincially, regionally, or interprovincially on a comparative basis, for the analytical boundaries are quite arbitrarily defined by the researcher.

It is within this environment of Canadian society, that the organized units central to this paper (profit-seeking business firms largely) function.

Just as it is analytically useful to isolate Canadian society from the world community, it is analytically useful to further divide the complex whole of the Canadian environment into smaller, more manageable sub-systems. The divisions employed are drawn from the field of social anthropology because there is no demonstrated theoretical difference between primitive and modern organizations or societies; the analytical elements appear to be the same. The difference is one of degree, with the modern organization being highly complex and dynamic in comparison with primitive, relatively self-contained societies.

In order to tie in the analytical construct of an organization functioning within identifiable sub-subsystems of a larger environment, the framework elucidated by Rogers will be employed.

According to Rogers;

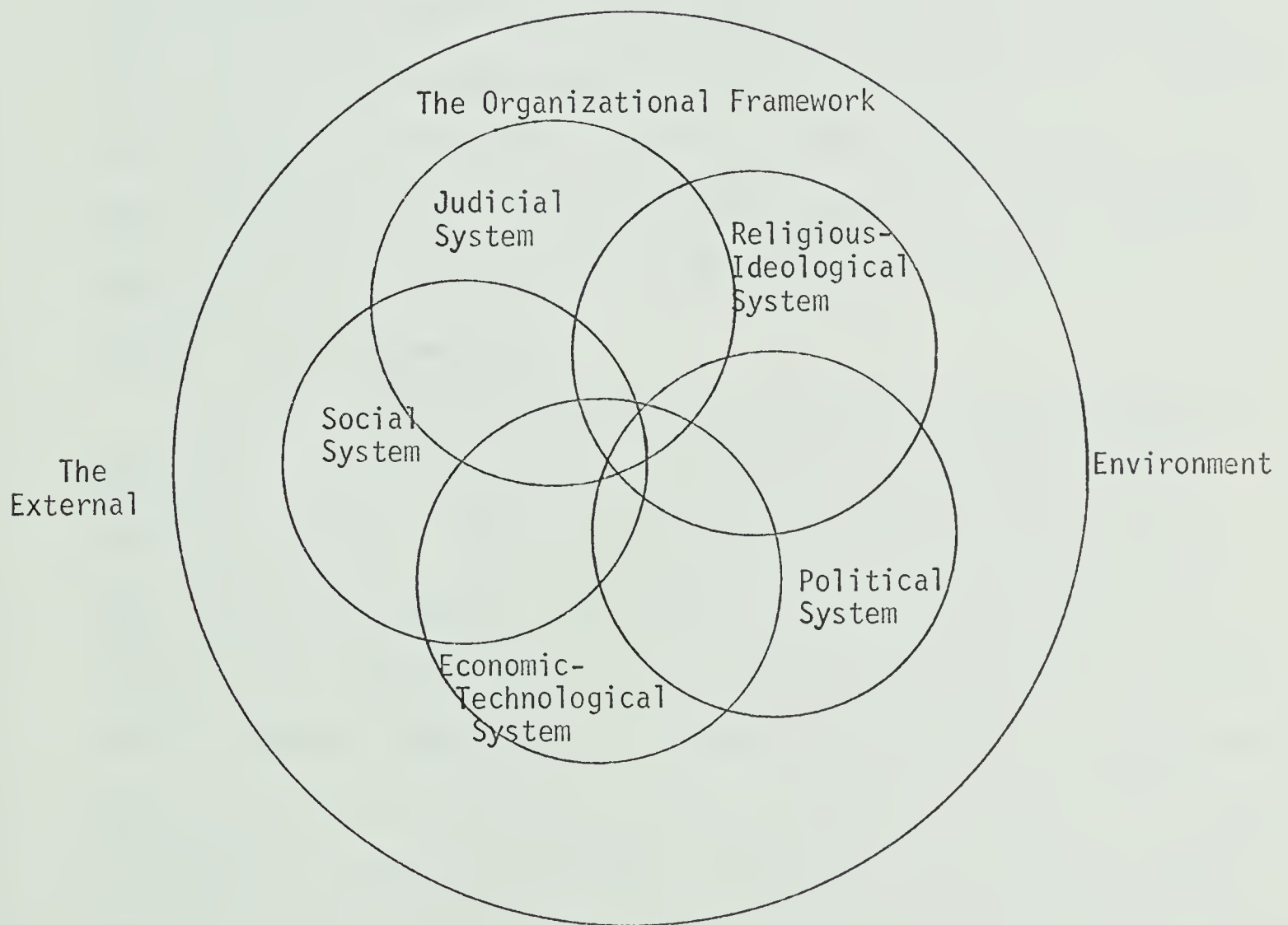
Organizations, in this context may be viewed as consisting of a set of analytically distinguishable systems which are in constant interaction within an organizational framework or configuration. The organizational framework, in turn, interacts with the environment in which the organization, that is, the set of systems, functions. This interaction can, at the risk of oversimplification, be represented diagrammatically to illustrate the "dynamicism" central to this view of organization. Exhibit I depicts the organization in this form.⁶

By extending Rogers' organizational framework to a macro or Canadian environment level, it necessarily follows that any identifiable environmental constraint affecting the organization or firm under study, can be labelled as originating within one or more of the "macro" sub-systems. As outlined in Exhibit I, Rogers labels his sub-systems: Ideological-Religious, Social, Political, Judicial, and Economic-Technological systems.⁷

⁶Rolf E. Rogers, The Political Process in Modern Organizations (New York: The Exposition Press, 1971), Introduction.

⁷Rogers, The Political Process, op. cit., Introduction.

Exhibit I



Source: Rogers, *The Political Process*, op. cit., Introduction.

Richard N. Farmer and Barry M. Richman classify 29 environmental constraints critical to managerial effectiveness under four areas:

- (i) Educational-Cultural Variables.
- (ii) Sociological-Cultural Variables.
- (iii) Political and Legal Variables.
- (iv) Economic Variables.⁸

Farmer and Richman use the terms; factors, elements, variables, and environmental constraints interchangeably, referring to conditions within the environment that may or may not be contributing to or limiting upon managerial effectiveness. This study will similarly treat environmental constraints in a linear programming manner; i.e. the constraints always exist but they may or may not be limiting in the process or equation under consideration.

In part, the task of this study is to relate the 29 environmental constraints identified by Farmer and Richman to the five sub-systems of the Rogers' model. Then, on the foundation of the dynamic systems model developed by Rogers, this study will descriptively examine, at various levels of abstraction and in various degrees of detail, some of the environmental constraints or variables that may affect organizational effectiveness; either directly on the organizational framework as a whole, or indirectly through organizational sub-systems. The dynamic systems model is employed in this essentially qualitative study mainly because

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Farmer and Richman, Comparative Management, op. cit., pp. 26-30.

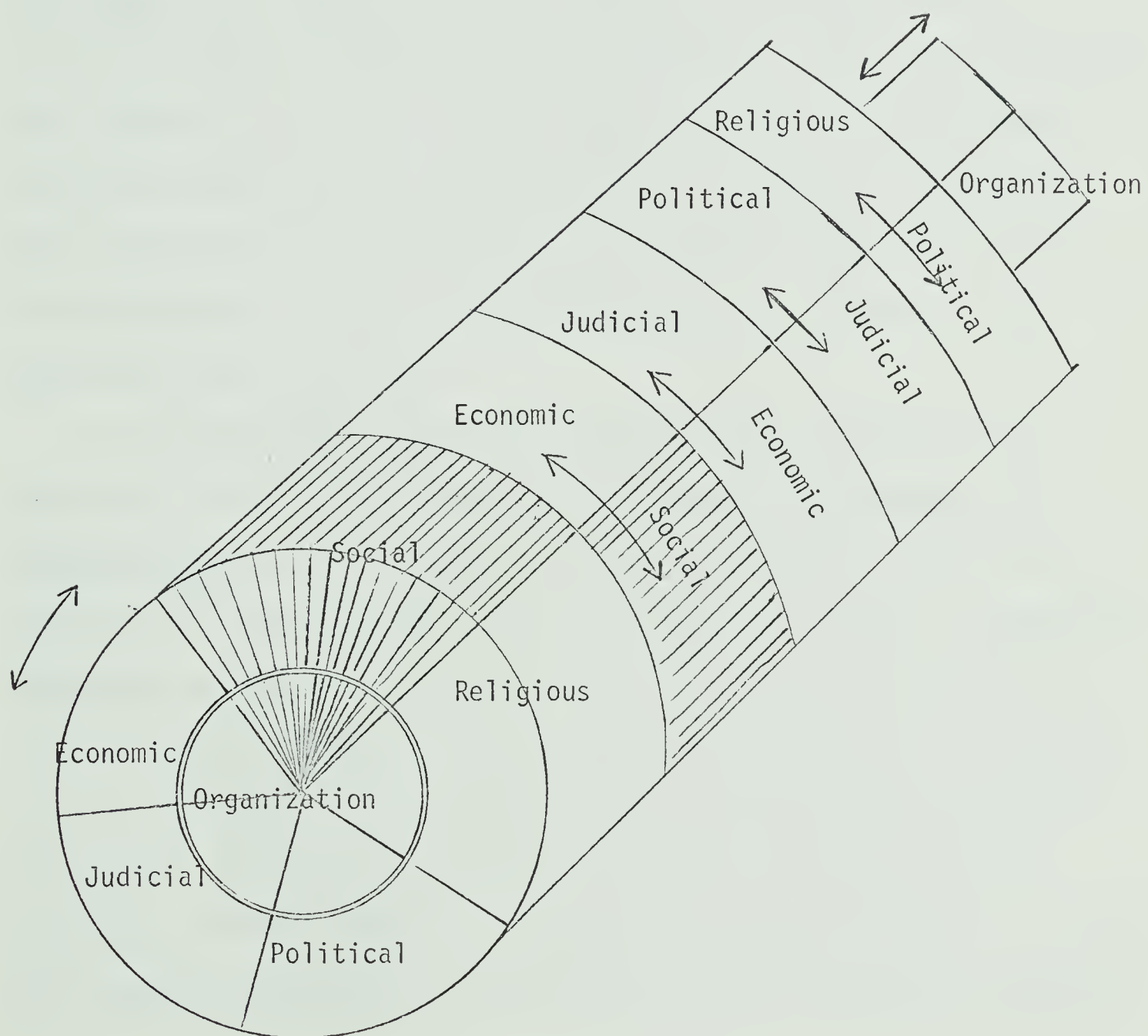
it could provide a basis for the future quantitative analysis of the variables and concepts developed.

Organizations are defined as large, fairly permanent systems composed of interrelated functional sub-systems that are so designed to achieve rather limited objectives (goals) through co-ordinated activities. It is also assumed that "organizational effectiveness" can, in some sense, be quantitatively measured. Following from the above definition of organizations, the concept of organizational effectiveness encompasses the degree or level of efficiency with which the limited objectives of the organization are attained.

The level of efficiency of any type of system may be defined as $E=O/I$, where E is efficiency, O is output, and I represents inputs. The range of E is from 0.0, (no output at all), to theoretical infinity. Output, for purposes of this study, is represented by achievement of organizational objectives or goals. Inputs are the scarce and valued resources applied by an organization in seeking attainment of its particular goal or goals. Organizational goals encompass traditional stated goals, such as profit maximization as well as those of stability, growth, and interaction between organization sub-systems.

At the next lower level of abstraction from that of the Rogers' framework of organizations, (Exhibit I), Exhibit II, page 9, attempts to embody the notion of systems interaction at the organizational and environmental level with the notion of organizational effectiveness. The parallel is with that of a cylindrical tumbler lock such as the type used to prevent bicycle thefts. The less-than-perfectly-round movable piston or rod on the inside represents the organization. The series of rotatable wheel-like structures of the outer cylinder represents

Exhibit II



Note: High effectiveness is equated with minimal friction on the piston (organization), and cylinder (environment), interfaces.

the external environment composed of the five sub-systems developed by Rogers. It should be noted that the segments representing the various sub-systems are to some degree interfaced with every other sub-system, both in the environment and in the organization. The degree of alignment among the movable "wheels" of the environment, containing something less than perfectly round central holes, determines the degree of efficiency, i.e., lack of friction, with which the organization or piston can "move", (towards its goal attainments). "Ideal" organizational effectiveness or efficiency is then equated with zero friction between the moving piston and the moving cylindrical interfaces. Conceptually, the organizational effectiveness of any particular organization should be quantifiable as being somewhere between zero and infinity on the system efficiency continuum.

In as much as this study borrows heavily from, and was in part inspired by Farmer's and Richman's book, Comparative Management and Economic Progress, it is considered desirable to outline their central theme and the points in which this study departs from theirs. Comparative Management was written in an attempt to answer the general question as to why industrial managerial activity and the effectiveness of management in terms of economic progress seemed to vary sharply between different countries.⁹ In their study, Farmer and Richman were concerned with evaluating critical elements of the managerial process as well as critical environmental constraints upon the effectiveness of management in various

⁹Farmer and Richman, Comparative Management, op. cit., preface, vii.

countries. In contrast, our study will be concerned only with the effect of environmental constraints upon organizational effectiveness. The critical elements of the managerial process will not be dealt with per se. Management structure and the management process are regarded as being derived from the five basic sub-systems and thus the analysis of management structure and process is a further refinement that is beyond the scope of this study.

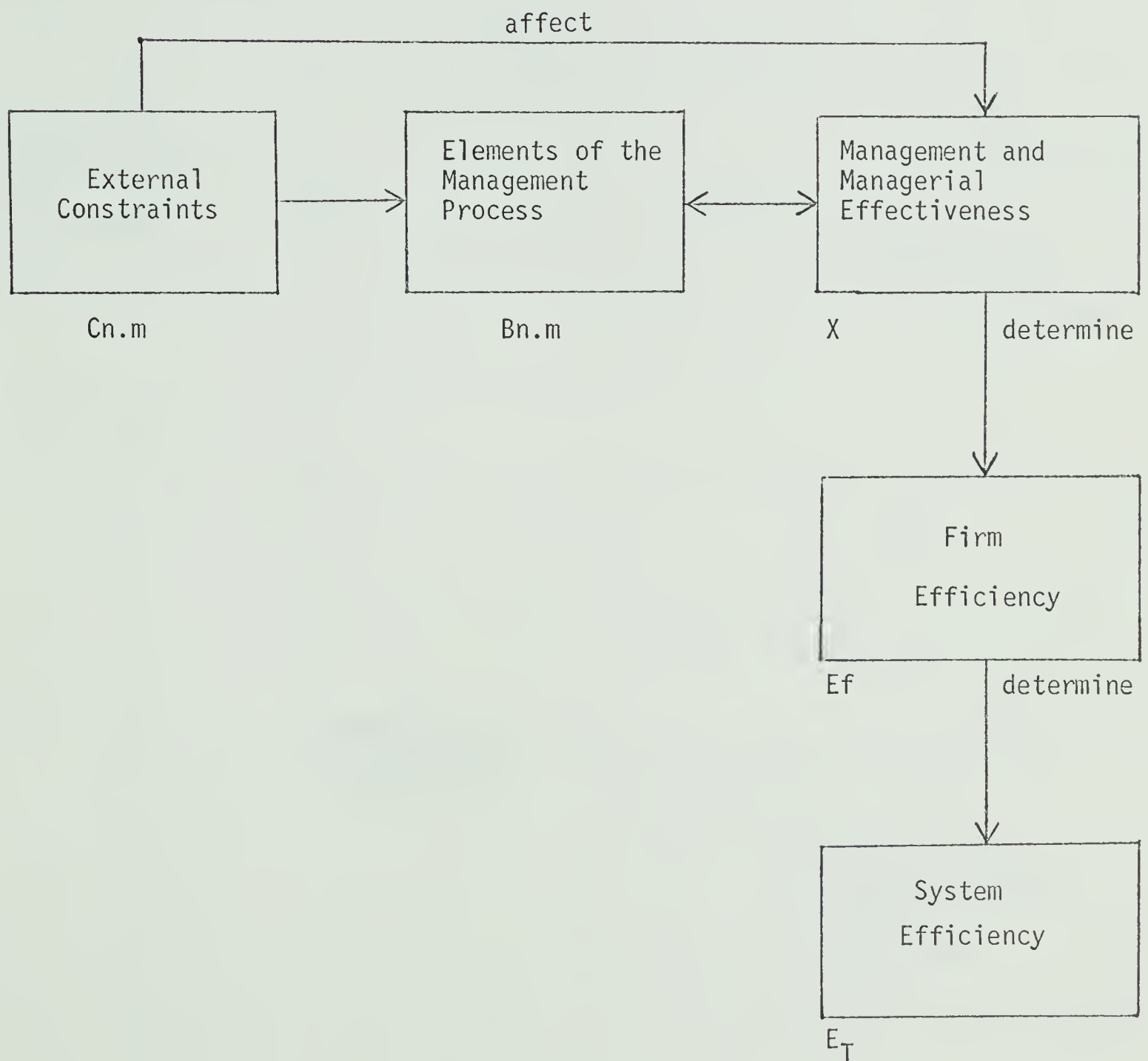
Comparison of Figure 1-1, page 12, which sequentially represents the relationships studied by Farmer and Richman, with Figure 1-2, page 13, which represents the writer's conceptual schema, will clarify the essential differences in emphasis.

It should be noted in comparing Figure 1-1 and Figure 1-2, that in Figure 1-2 organizational sub-systems, namely the Ideological-Religious, Social, Political, Judicial, and Economic-Technological sub-systems, are substituted for Elements of the Management Process. Similarly, Organizational Behavior and Effectiveness replaces Management and Managerial Effectiveness. It would be equally valid to overlap rather than substitute in the conceptual schema; for there seems to be little question that the essentially structural elements of an organization are important, but given that they are a consequence or result of Rogers' five super-ordinate sub-systems and because management structure and process will not be dealt with in any great detail, they are omitted for conceptual clarity.

The strength of basing analysis on the dynamic systems framework is further supported by the necessary inclusion of a feedback loop from Organizational Behavior and Effectiveness to the Environmental Constraints box, which is a consideration absent from the Farmer and Richman construct.

Figure 1-1

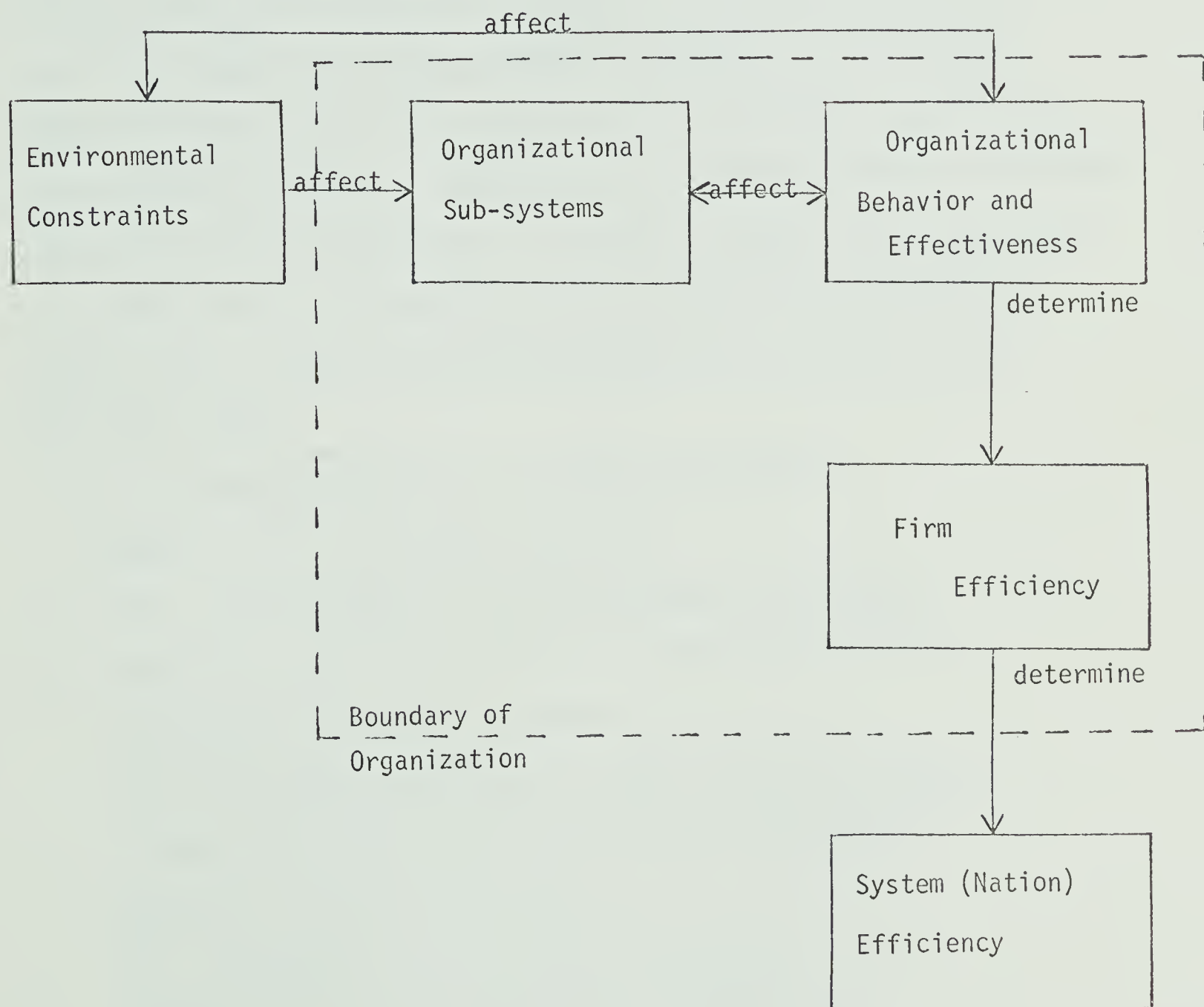
Constraint-Management Process-
Managerial Effectiveness-Efficiency Relationships



Source: Farmer and Richman, Comparative Management, op. cit., p. 35.

Figure 1-2

Constraint-Organizational Sub-systems-
Organizational Effectiveness-Efficiency Relationships



Hypothesis

The basic hypothesis presented is that environmental elements or variables (constraints) have an effect on organizational behavior and effectiveness, and that these variables or elements can be best identified via a dynamic systems approach to analysis. It is also recognized that the organization's behavior affects the environmental constraints within the society in which it functions. It is further hypothesised that quantitative analysis of the identified variables can help determine the relative importance of selected environmental constraints upon organizational effectiveness. In order to establish this hypothesis as a viable base from which more precise hypotheses may be formulated and empirically tested, the following objectives must be met by this exploratory report:

- (i) A basic explanation of the five sub-systems contained within the Rogers' construct.
- (ii) A categorization of the 29 important environmental constraints postulated by Farmer and Richman into the five sub-systems of the Rogers' construct.
- (iii) A descriptive examination, within a Canadian context, of each of the five sub-systems and of the constraints contained within each sub-system.
- (iv) A suggestion as to the type of analytical techniques that could be applied for further analysis of and quantification of the environmental constraints identified in the study.

The following chapter will examine the analytical framework developed by Rogers.

CHAPTER II

The Rogers' Analytical Framework

This framework, Exhibit 1, which is derived from the field of Social Anthropology, provides a configuration with which to study the action and inter-action of various systems within an organization and its total environment. In Social Anthropology this organization is commonly viewed as a relatively self-contained society. The five sub-systems established by Rogers are always, to greater or lesser degrees, present, even in the most primitive society of the African Bushman. Similarly, the sub-systems are identifiable in the most complex of modern industrial organizations or nation-states; the differences are only in degree. It is important to emphasize that the organizational framework represents a distinguishable boundary only for analytical purposes. According to Rogers:

It is primarily within the frame of reference of the external observer that the social, judicial, ideological, political, and economic systems assume an organizationally identifiable configuration. This does not imply, however, that organizational identification does not exist within the frame of reference of the organization member or participant. What it does suggest is that the frame of reference may be perceived differently and, therefore, configurational characteristics (i.e., systems) become a definitional function of the empirical context of analysis.¹⁰

¹⁰Rogers, The Political Process, op. cit., Introduction.

This study relies on the conceptualization developed by Rogers, but the analysis conducted will be of a broader and more general nature. The duality of this study is best illustrated by Exhibit 2, page 9, where both societal and organizational sub-systems are portrayed. This chapter then, will outline the analytical sub-systems as explained by Rogers in his work on organizational analysis and will also attempt to keep the "macro" sub-systems present in society as a whole in focus.

Ideological-Religious System

The Ideological-Religious system must be considered as a super-ordinate system in as much as its functions are the basis for determining the manner in which other sub-systems, and the organization in total, will operate.

Primitive societies are illustrative in this regard. The hunt, leadership criterion, and the forms of sanctions employed against deviants, all have strong religious overtones in most primitive societies. The implication is that groups or societies need the supernatural or religious element to explain phenomena that man cannot explain rationally. Religion thus provides an organized picture of the universe and establishes a more or less orderly relationship between man and his surroundings. In this way, religion reduces fears and anxieties, and gives man, not only a greater feeling of security in the uncertain present, but as well the hope of a tolerable future.

As the label of this particular sub-system suggests, it is rather difficult to separate the elements of religion from those of ideology.

Nettler defines ideology in terms of what it does:

Ideologies define "our poor" and "our kind". They identify the forces against which our ideals must struggle, and they point to what is or should be rewarded in this or later worlds. Life is no longer absurd. Ideology tells the point of it all. It describes the forces of light and darkness and names the innocent to be saved. Men who "know" ideology "believe in that something greater than themselves that makes their lives meaningful. They are joined with others and are themselves "made whole".¹¹

Talcott Parsons recognized the inter-relatedness of religion and ideology but emphasized the situational or environmental nature of an ideology.

An ideology, then, is a system of beliefs, held in common by the members of a collectivity, i.e., a society, or a sub-collectivity of one - ... - a system of ideas which is oriented to the evaluation integration of the collectivity, by interpretation of the empirical nature of the collectivity and of the situation in which it is placed, the processes by which it has developed to its given state, the goals to which its members are collectively orientated, and their relation to the future course of events. ...A system of religious ideas, on the other hand, rests primarily on the non-empirical premises of its belief system and "works back" as it were, from these to their implications for the empirical nature and situation of the collectivity.¹²

For example, this situational aspect of an ideology described by Parsons, in part explains the development of an American ideology unique from that held in the countries of origin of the American pioneers. In a general sense, the Protestant Ethic was the dominant theme of the

¹¹Gwynn Nettler, Explanations (Toronto: McGraw-Hill Inc., 1970), p. 179.

¹²Talcott Parsons, The Social System (Glencoe: The Free Press, 1951), pp. 349-350.

religious-ideological system of industrializing American. The Protestant Ethic implored men to work hard, be thrifty and to regard the accumulation of wealth as an index of good or godliness. E. Adamson Hoebel, in his book, Anthropology: The Study of Man, has provided a very good description of the American Ideology or, as he calls it, The American World View. Hoebel describes the religious-ideological tone of the United States in four sections or aspects.

(i) Rationalism and the mechanistic view. This view is a historical derivative of the Judaeo-Christian-Hellenistic traditions as blended and modified by the Renaissance, the Reformation, and the Industrial Revolution period in Europe.

Primal to this world view is the belief that the universe is a physical system that operates in a determinate manner according to discoverable scientific laws. Thus, Americans use religion for purposes of social organization, but they rely relatively little upon prayer, ritual, or sacrifice to achieve their ends. Instead, they depend primarily upon basic scientific research and the technical applications of the findings of science. Because they view the universe as a mechanism, Americans implicitly believe that man can manipulate it. He need not accept it as it is; he may work on it, and as he gains in knowledge and improves his techniques, he may even redesign it so that it is more to his liking. From this springs the conviction that the conditions of living are improvable: materially, biologically, and socially. Improvement means betterment; betterment means progress. Americans are progressive: neither revolutionary nor conservative, but progressive. Man can himself, in the American view, eliminate hunger and poverty, disease, and social injustice - if he sets himself to the task. This fundamental motivating postulate of contemporary American culture expresses itself in a focal value orientation of "effort-optimism." Because the world view is rational-mechanistic rather than mysticvitalistic, it leads to action rather than contemplation, to aggressive engagement rather than passive renunciation. Americans "make war" on poverty, "stamp out" disease, "wipe out" illiteracy, and embark on the "conquest" of space, as their forebears "conquered" the wilderness. Such an action orientation makes for emphasis upon technology and science rather than upon technology and the arts. It has produced a mechanized agriculture, industrial, business-centered civilization rather than an ecclesiastical, scholarly, militaristic, or feudalistic one.

(ii) Pragmatic empiricism. Concomitantly, the American cultural emphasis is pragmatic-empirical rather than theoretical-dogmatic. Americans are more concerned with "know-how" and "can-do" than with abstract wisdom or ancient knowledge, even to a considerable degree in science. The test of the validity of the American premise is, in the American view of things, continued expansion of the gross national product, ever-new medical breakthroughs, and continuous expansion of social well-being and opportunity. As long as the standard of living, expressed in wide distribution of consumers' goods, keeps rising, it is felt that things are going well.

(iii) Individual-centeredness. When the American looks away from the universe and inward toward himself and his society, his focus of view is individual-centered, rather than kin-centered, class-centered, or collectivistically oriented, even though Americans are widely given to group organization. In the religious belief that has permeated much of the morality of the culture, it is premised that a man's moral responsibility rests in his private conscience. In the view of human nature held by Christianity, which is the dominant religion, man is inherently corrupt and sinridden by nature, and personal salvation (that is, purification from the moral stain of sin) is possible only in an emotional act of identification with God through Jesus (or his mother, Mary). Americans are therefore generally internally plagued with inner conflict and anxiety. Believing in the improbability of the self as an individual responsibility, and yet also holding (to a certain extent) that man is a sorry being, they accept the proposition that inner psychic conflict is the very essence of human existence. But to control the extreme consequences of such conflict there is less reliance upon religious or philosophic solutions than upon psychiatry and mental hygiene programs.

(iv) Status and social mobility. The individual-centeredness of the American world view, combined with its pragmatic action orientation, gives emphasis to status achievement and social mobility. Achievement-in-being is what counts, not an illustrious background. American egalitarianism and its proposition that all men are created equal derives from this combination of qualities. Every American has to prove himself to himself first and to his fellows second-to succeed in manifest ways. He sees himself in a fluid social organization that necessitates fluid status symbols whereby achievement can be tangibly expressed. In a business-based culture, money serves this function. Money is the measure of success; it validates one's efforts, and therefore oneself, by providing the means to purchase such external symbols of success as a college education, a discreetly selected foreign car, or a large house at a good address.¹³

¹³E. Adamson Hoebel, Anthropology: The Study of Man, third edition (New York: McGraw-Hill Inc., 1966), pp. 498-500.

Social System

It is important here to explain the more limited definition of a social system used in this paper than that commonly employed for analysis by sociologists. Naegele, for example, maintains that organizations are social systems since they have a moral order, define ends and means to ends, have systems of membership, have rules for membership, adapt to environment (physical, material, and social), and have a cohesion among members which implies a sense of belonging, differentiation from outsiders, and a means to motivate loyalties.¹⁴ Use of Naegele's definition would in effect place all the sub-systems in full over-lap; which is in fact the "real-world" situation or representation of an organization. In order to maintain the analytical distinction between the various sub-systems, the definition of a social system by Talcott Parsons proves to be a better point of departure. Parsons says;

... a social system consists in a plurality of individual actors interacting with each other in a situation which has at least a physical or environmental aspect, actors who are motivated in terms of a tendency to the "optimization of gratification" and whose relation to their situations, including each other, is defined and mediated in terms of a system of culturally structured and shared symbols.¹⁵

The key to Parson's definition is that relations of actors, among themselves and their situation (environment), is defined and mediated in terms of a system of culturally structured and shared symbols.

¹⁴Naegele, Canadian Society, op. cit., pp. 2-4.

¹⁵Parsons, The Social System, op. cit., pp. 5-6.

In order to recognize the fact that groups often act as entities in response to common or shared goals a further definition is necessary. Rogers observes;

E. Adamson Hoebel in defining the social system [notes] that the social organization is "the ways in which groups and individuals are organized and related to one another in the functioning entity that is society".¹⁶

Thus the social system of an organization or society is a set of culturally determined values. These values are institutionalized by the particular requirements or goals of the society or organization.

Judicial System

Rogers, following the point of view of Hoebel, observes:

[In a society or organization] Expectancies of probable behavior must be maintained so that people can manage their lives with a high degree of certainty that their own activities will invoke anticipated responses from their fellow men and will have the expected results. Culture sets such patterns. Success in adaptation to the norms and expectancies or failure to adapt is penalized. The judicial system (or law) is, therefore, an aspect of organizational control. It is one of the major devices used to penalize behavior that varies too much from selected norms. Legal norms are thus social norms that are re-enforced by legal sanctions.¹⁷

Hoebel, in his book, The Law of Primitive Man, outlines the functions of law or of the judicial system: These include:

- (i) The definition of relationships between the members of a society, so as to assert which activities are permitted and which are ruled out and to maintain at least minimal integration between the activities of

¹⁶Rogers, The Political Process, op. cit., Introduction.

¹⁷Rogers, The Political Process, op. cit., Introduction.

individuals and groups within society.

(ii) The allocation of authority and the designation of who may exercise physical coercion as a socially recognized privilege-right so that force is controlled and directed toward social [or organizational] goals.

(iii) The disposition of trouble cases as they arise so that social harmony [organizational stability] may be re-established.

(iv) The redefinition of relations between individuals and groups as the conditions of life change.¹⁸

The judicial system, in Canada, for example, is relatively well-defined and a firmly established part of Canadian society. It is a formalistic "thou shalt not" body of legal norms. These legal norms are in part, culturally based and thus have some degree of emotional commitment from the members of society.

In an organization, the formalization of punitive measures is not so well developed. This is because nearly all of the legal sanctions of the society are operative upon the members of an organization within that society. Also, the organization, in the pursuit of its limited goals with limited means has minimal incentive to apply formal negative sanctions upon its members. This is not to say that the organization does not possess or use informal sanctions upon deviant participants. A good argument exists for including informal sanctions within the sphere of the judicial system, but for our purpose, only formalized sanctions are included. The only safe generalization seems to be that as organizations increase in size and develop a formalized bureaucratic structure, the incidence and extent of a formalized system of sanctions increases. Examples of formalized sanctions are the clauses contained

¹⁸E. A. Hoebel, The Law of Primitive Man, (Cambridge, Mass: 1954) p. 275. quoted from Hoebel, Anthropology, op. cit., p. 441.

in union contracts for dealing with disciplinary measures and regulations governing medical practice.

Political System

Dahl states that:

A political system is any persistent pattern of human relationships that involves, to a significant extent, power, rule, or authority.¹⁹

In the view of Rogers, the political system consists of a set of basic elements and modes of action.²⁰ The position network or formalized hierarchical structure that is a visible manifestation of most political systems, as initially established in line with the particular goal or goals of the organization, is largely used in the Rogers' analysis as a frame of reference. This frame of reference is useful in order to determine at which level various other sub-systems become operative. For example, the Judges of the Supreme Court of Canada (judicial), are appointed "at the pleasure" of the Governor-General of Canada (political), while District Magistrates in Alberta are appointed to serve at the pleasure of the Lieutenant-Governor of the Province of Alberta.

Hoebel's definition of political organization, at the supra-system or macro level, e.g. the nation-state of Canada, most closely fits the

¹⁹Robert A. Dahl, Modern Political Analysis (Englewood Cliffs: Prentice-Hall Inc., 1963), p. 6.

²⁰Rogers, The Political Process, op. cit., Chapter 1.

requirements of this paper. Hoebel says:

Political organization consists of the network of customs and institutions that regulate relations between groups within a society [or organization] and between one society [or organization] and another.²¹

In order to relate Rogers usage of the political system's structure or hierarchy as a frame of reference, and in order to better understand the dynamic inter-relatedness of all sub-systems, the functional definition used by Hoebel is useful:

The functions of political organization include definition of norms, [social system] allocation of force and authority [judicial system], settlement of disputes, public works [economic system], ceremony and ritual control of the supernatural [religious-ideological system], economic activities [markets], and war.²²

Rogers, in discussing the political system, has largely concentrated at the organizational level and on the elements comprising this system, namely power, authority, legality, and legitimacy; and the modes of "operationalizing" these elements namely, force, centralization-decentralization, and differentiation-integration.²³

Economic-Technological System

Regardless of its type, be it primitive or modern, free enterprise based or state-owned, every economic system must somehow perform five

²¹Hoebel, Anthropology, op. cit., p. 462.

²²Hoebel, Anthropology, op. cit., p. 462.

²³Rogers, The Political Process, op. cit., Chapter 1.

closely related functions. It must determine (1) what is to be produced. (2) how production is to be organized, (3) how products are to be distributed. (4) how goods are to be rationed over time, and (5) how the productive capacity of the economic unit is to be maintained and expanded.²⁴

Nash, in his book, Primitive and Peasant Economic Systems, writes:

The distinguishing features of peasant and primitive economic systems fall along four axes. Societies can be ranked along each of the axes and subjected to numerical scoring and perhaps quantitative manipulation... .

These four axes are:

- (1) Technological complexity and the division of labor.
- (2) Structure and membership of productive units.
- (3) Systems and media of exchange.
- (4) Control and wealth of capital.²⁵

Rogers, dealing with the same subject, writes further:

It would seem that, for our purposes, these four "axes" could be employed in a more universal fashion. The features inherent in each of the axes are present not only in primitive and peasant systems but also in modern, and especially, industrial organizations. While the term "economic" is traditionally used in social anthropology to describe the body of fact and information about economic life and behavior of primitive peoples, a more appropriate designation for these phenomena in modern (industrial) organizations might be "technological." Hence, we have used the hyperation "economic-technological" to accomodate this emphasis in both organizational frameworks. ...The four axes proposed by Nash, ..., are useful for establishing a set of general features common to all types of organizations. Thus, all organizations, whether primitive-peasant or Western-modern have economic-technological systems which include:

1. A level of technological complexity and an associated structure of labor division, be it a peasant society in

²⁴Richard H. Leftwich, The Price System and Resource Allocation (New York: Holt, Rinehart and Winston, 1961), p. 14.

²⁵Manning Nash, Primitive and Peasant Economic Systems (San Francisco: Chandler Publishing Company, 1966) pp. 19-20.

Mexico producing pottery or the Boeing Company in the United States producing airplanes.

2. A structure and membership of productive units, be it the machine shop in an industrial plant or a kinship group among the Bemba of Rhodesia.

3. A system of exchange, be it a monetary standard supported by gold reserves or shells among the Kapauku Papuans of New Guinea.

4. Control and wealth of capital, be it based on land allocation, inheritance, and marriage or conveyance, contract, and sale.

The primary distinction, in addition to cultural imperatives, appears to be the level of technological complexity at which the organization functions. Thus it would seem that the higher the level of technological complexity, the more precise and fractionalized the division of labor, and the more standardized and specialized the structure and membership of productive units. ... Finally, more universalistic systems of exchange and of control and wealth of capital would be required to accommodate the higher level of technological complexity inherent in a Western industrial organization-as opposed to those required in a primitive or peasant society.²⁶

In summary, this chapter has attempted to outline Rogers' analytical framework of organizational sub-systems and the concept that a similar "supra-system" exists in the external environment of the organization. The following chapter will integrate the work of Farmer and Richman into the systemic view of Canadian society as a higher level of organization.

²⁶Rogers, The Political Process, op. cit., Chapter 1.

CHAPTER III

The Farmer and Richman Typology

Farmer and Richman have most clearly identified the importance of environmental constraints on the effectiveness of a firm. They suggest that there are twenty-nine important variables which determine the efficiency of the management process in a foreign setting. Foreign, in their definition, meaning other than the United States. Any one of these variables exerts a force on the organization. In their study, the degree and relationship of the force to other forces is the heart of the problem being examined, for it is the combined pressures which dictate the corporate design and give direction to corporate effort.²⁷

The following is a listing of the four general types of environmental constraints identified by Farmer and Richman and their brief description of each of the 29 variables:

²⁷Farmer and Richman, Comparative Management, op. cit., Chapters 1-3.

Critical Environmental Constraints

C₁: Educational-Cultural Variables

- C_{1.1}: Literacy level: The percentage of the total population and those presently employed in industry who can read, write, and do simple arithmetic calculations, and the average years of schooling of adults.
- C_{1.2}: Specialized vocational and technical training and general secondary education: Extent, types, and quality of education and training of this kind not directly under the control or direction of industrial enterprises; the type, quantity, and quality of persons obtaining such education or training and the proportion of those employed in industry who have such education and training.
- C_{1.3}: Higher education: The percentage of the total population and those employed in industry with post-high school education, plus the types and quality of such education; the types of persons obtaining higher education.
- C_{1.4}: Special management development programs: The extent and quality of management development programs which are not run internally by productive enterprises and which are aimed at improving the skills and abilities of managers and/or potential managers; the quantity and quality of managers and potential managers of different types and levels attending or having completed such programs.
- C_{1.5}: Attitude toward education: The general or dominant cultural attitude toward education and the acquisition of knowledge, in terms of their presumed desirability; the general attitude toward different types of education.
- C_{1.6}: Educational match with requirements: The extent and degree to which the types of formal education and training available in a given country fit the needs of productive enterprises on all levels of skill and achievement. This is essentially a summary category; depending on the type of job involved, different educational constraints indicated above would be more important.

C₂: Sociological-Cultural Variables

- C_{2.1}: Attitude toward industrial managers and management: The general or dominant social attitude toward industrial and business managers of all sorts, and the way that such managers tend to view their managerial jobs.

- C_{2.2}: View of authority and subordinates: The general or dominant cultural attitude toward authority and persons in subordinate positions, and the way that industrial managers tend to view their authority and their subordinates.
- C_{2.3}: Interorganizational cooperation: Extent and degree to which business enterprises, government agencies, labor unions, educational institutions, and other relevant organizations cooperate with one another in ways conducive to industrial efficiency and general economic progress.
- C_{2.4}: Attitude toward achievement and work: The general or dominant cultural attitude toward individual or collective achievement and productive work in industry.
- C_{2.5}: Class structure and individual mobility: The extent of opportunities for social class and individual mobility, both vertical and horizontal, in a given country, and the means by which it can be achieved.
- C_{2.6}: Attitude toward wealth and material gain: Whether or not the acquisition of wealth from different sources is generally considered socially desirable, and the way that persons employed in industry tend to view material gain.
- C_{2.7}: Attitude toward scientific method: The general social and dominant individual attitude toward the use of rational, predictive techniques in solving various types of business, technical, economic and social problems.
- C_{2.8}: Attitude toward risk taking: Whether or not the taking of various types of personal, collective, or national risks is generally considered acceptable, as well as the dominant view toward specific types of risk taking in business and industry; the degree and extent to which risk taking tends to be a rational process in a particular country.
- C_{2.9}: Attitude toward change: The general cultural attitude toward social changes of all types which bear directly on industrial performance in a given country, and the dominant attitude among persons employed in industry toward all types of significant changes in enterprise operations.

C₃: Political and Legal Variables

- C_{3.1}: Relevant legal rules of the game: Quality, efficiency, and effectiveness of the legal structure in terms of general business law, labor law, tax law, and general law relevant to business, degree of enforcement, reliability, and so on.

- C_{3.2}: Defense and military policy: Impact of defense policy on industrial enterprises in terms of trading with potential enemies, purchasing policies, strategic industry development, labor and other resource competition, and similar factors.
- C_{3.3}: Foreign policy: Impact of policy on industrial enterprise in terms of trading restrictions, quotas, tariffs, customs, unions, foreign exchange, foreign aid, and so on.
- C_{3.4}: Political stability: Influence on industrial enterprises of revolutions, changes in regime, stability or instability over protracted periods, and so on.
- C_{3.5}: Political organization: Types of organization in constitutional terms; degrees of centralization or decentralization; degree and extent of red tape, delays, uncertainty and confusion in industry-government dealings; pressure groups and their effectiveness, political parties and their philosophies; and so on.
- C_{3.6}: Flexibility of law and legal changes: Degree to which relevant barriers to the efficient management of industrial enterprises can be changed and the timeliness of such changes, predictability and certainty of legal actions, and so on.

C₄: Economic Variables

- C_{4.1}: General economic framework: Including such factors as the overall economic organization of the country (i.e., capitalistic, Marxist, mixed), property rights, and similar factors.
- C_{4.2}: Central banking system and monetary policy: The organization and operations of the central banking system, including the controls over commercial banks, the ability and willingness to control the money supply, the effectiveness of government policies regarding price stability, commercial bank reserves, discounting, credit controls, and similar factors.
- C_{4.3}: Fiscal policy: General policies concerning government expenditures, their timing, and their impact; the general level of deficit, surplus, or balance; total share of government expenditures in gross national product.
- C_{4.4}: Economic stability: The vulnerability of the economy to economic fluctuations of depression and boom, price stability, and overall economic growth stability.
- C_{4.5}: Organization of capital markets: The existence of such markets as stock and bond exchanges, their honesty, effectiveness, and total impact; the size and role of commercial banking, including loan policies and availability of credit to businessmen; the

existence of other capital sources, such as savings and loan associations, government sponsored credit agencies, insurance company loan activities, and so on.

- C_{4.6}: Factor endowment: Relative supply of capital and land (agriculture and raw materials) per capita; size and general health of the work force.
- C_{4.7}: Market size: Total effective purchasing power within the country, plus relevant export markets.
- C_{4.8}: Social overhead capital and external economies: Availability and quality of power supplies, water, communications systems, transportation, public warehousing, physical transfer facilities, housing, and so on.²⁸

In the Farmer and Richman study, the environmental constraints listed are matched with a listing of the 106 critical elements of the management process to form a matrix. Their reason for this approach was:

...to determine, in a tentative manner, the impact of the environmental constraints on managerial effectiveness, both directly and through the various elements of the management process. The aim is to assign a value to each constraint for each country studied. This should indicate the extent to which each constraint inhibits managerial effectiveness.²⁹

Thus the approach offered by Farmer and Richman is a valuable step in the systematic evaluation of the critical external variables affecting the behavior of the firm.

The orientation of this study differs in several important respects.

²⁸Farmer and Richman, Comparative Management, op. cit., pp. 29-30.

²⁹Farmer and Richman, Comparative Management, op. cit., p. 40.

First the study is restricted to a "qualified Canadian" environment; the comparisons made with other societies, mainly the United States, are intended for clarity of the explanation. Secondly, this study takes the managerial process and structure as a given and constant variable. This approach is justified on the grounds that the organizational sub-systems outlined earlier are prerequisites to and determinants of the type of management structure and management behavior that will develop in a given organization. Thirdly the Rogers' dynamic systems framework is used, not simply for procrustean purposes but to provide analytical clarity to a generalistic view of organization-environment interrelationships. Thus, environmental constraints are not analysed with regard to effect upon managerial behavior and managerial effectiveness as did Farmer and Richman, but rather with regard for the broader categories of organizational behavior and organizational effectiveness. The assumption of measurability of organizational effectiveness has been previously outlined. The twenty nine variables listed by Farmer and Richman can be assigned to the systems within Rogers' schema as follows:

Religious-Ideological System

Attitude toward education
 Attitude toward achievement and work
 Attitude toward wealth and material gain
 Attitude toward scientific method
 Attitude toward change

Social System

Attitude toward industrial managers and management
 View of authority and subordinates
 Class structure and individual mobility
 Attitude toward risk taking

Judicial System

Relevant legal rules of the game

Flexibility of law and legal change

Political System

Political organization

Political stability

Interorganizational cooperation

Foreign policy

Defense and military policy

Economic-Technological System

General economic framework

Central banking system and monetary policy

Fiscal policy

Economic stability

Organization of capital markets

Factor endowment

Market size

Social overhead capital and external economies

Literacy level

Specialized vocational and technical training

Higher education

Special management development programs

Educational match with requirements

Having fitted the 29 variables into the appropriate systems the next step is to explore these variables and their appropriate system at the organizational level, in our case, Canadian society. The treatment of the macro systems and their elements or variables will in some sense be biased by the impressions and subjective evaluations of the writer. A search of the literature for relevant empirical studies, historical background, and for more "authoritative" viewpoints on the Canadian Scene than that of the author will supplement the unavoidably biased posture of the writer. The paucity of relevant Canadian studies exacerbates this caution.

CHAPTER IV

The Canadian Religious-Ideological System

As stated previously, the function of the ideological system is to provide social cohesion and to establish and maintain the value system of the society. In modern times, particularly in complex industrial societies, religion, although important, has often been replaced by a quasi-religious nationalism as typified by the American world view as outlined by Hoebel.³⁰ The American world view (ideology), provides a point of departure from which to examine the Canadian ideological system, which appears to vary only in degree from the American religious-ideological system.

Canadian-American Ideological Differences

Before discussing the degree to which the Canadian view differs from the American world view, it is important to outline the most probable reasons for the divergence in ideological outlook. Lipset, has outlined three dimensions which he feels are significant, (1) varying origins of political systems. (2) varying religious traditions. (3) varying frontier experience.³¹

³⁰Hoebel, Anthropology, op. cit., p. 462.

³¹S.M. Lipset, Revolution and Counter-Revolution, (Boston: Basic Books, 1969), Chapter Two.

(1) Varying Origins of Political Systems

The American political system was born of revolution. The American War of Independence served to cast off the monarchical-based yoke of British Colonialism. The writings of John Locke served as the political handbook of the revolution, emphasising egalitarianism or the primacy of the individual to purge the attendant privileges of elitism that existed under colonial rule. Liberalism and the concept that a government that governs least governs best, made an inhospitable climate for any elements of toryism that remained in the new nation. Thus the British Empire Loyalists left for Britain and Canada in order to escape the republican democracy and its anti-elitist sentiment. Those who remained were thus "ideologically pure". As Horowitz writes:

In the United States, liberalism becomes "Americanism", a political philosophy becomes a civil religion, a nationalist cult. The American attachment to Locke is "absolutest and irrational". Democratic capitalism is the American way of life; to oppose it is to be un-American.³²

The Canadian political system is evolutionary in its development. The Canadian mode of government is still a constitutional monarchy, a form derived from an earlier elitist system which recognized the divine right of kings to govern. The ideological response of Canada, or rather of the British Colonies that became Canada, to the American Revolution was one of counter-revolution. The role of the Canadian Colonial Establishment was to save ... "the colonial masses from the spectre of

³²Horowitz, "Conservatism, Liberalism, and Socialism in Canada: An Interpretation", Canadian Journal of Economics and Political Science, Volume XXXII, No. 2. May, 1966, p. 61.

republicanism and democracy."³³ This counter-revolutionary character has been dominant throughout Canada's history, as S.D. Clark explains:

New France was isolated from revolutionary France through the building up in the colony of a powerfully centralized political and ecclesiastical system. The British colonies and, after 1867, the Canadian nation were similarly isolated from outside revolutionary influences by the maintenance of a strong system of political control, supported by the Church, a privileged upper class, and, before 1870, the British army and navy.³⁴

(2) Varying Religious Traditions

Within the American colonies the separation of the Church and the State was the rule rather than the exception. This tendency towards separation emphasized the idea that the individual should find his own pathway to salvation as well as to prosperity. H. J. Laski provides an insight into the American Religious tradition:

...what begins as a theocratic principle ends by becoming a tradition that it is not very easy to distinguish from utilitarianism. It may well be that there were many to whom this utilitarian outlook was framed in a religious background. To work hard, to live an orderly life; to have a name for integrity and fair dealing, not to spend one's substance in reckless display, to have the resolution to carry out the purposes you undertake - it is, roughly, to an ethic such as this that the religion of America had been shaped when the basic tradition was formed. ...What it is important to stress is the fact that, as so notably shown in both the life and the works of Benjamin Franklin, the environment of America shaped traditional religion to its needs much more than the traditional religions shaped the American environment to their claims.³⁵

³³G. Horowitz, "Conservatism, Liberalism", op. cit., p. 59.

³⁴Samuel D. Clark, "The Canadian Community", in George W. Brown, editor, Canada, (Toronto: University of Toronto Press, 1950), p. 381.

³⁵Harold J. Laski, The American Democracy, (New York: The Viking Press, 1948), p. 27.

The situation was very different in Canadian historical experience. Church and State were "hand in glove" in the colonial ambitions of France in North America. Even before agriculturally-based settlements were established, Roman Catholic priests followed on the heels of the fur traders in their state-sanctioned mission to "christianize" the Indians. The entire French system of colonialism in Canada followed the patriarchal pattern characteristic of Roman Catholic societies. Thus the established order of a traditional society was in effect "transplanted" to Canada. This "established order" of Church and State served to inhibit the development of a revolutionary new ideology parallel to the American experience.

(3) Varying Frontier Experience

The American "conquest" of their western frontier typified and reinforced the view of a "manifest destiny" of the American pioneers to exercise dominion over the vast continental wilderness and the savages there-in. The very fact of topography reinforced the feeling of boundless opportunity with land literally available for the taking. Coupled with their faith in their ability to master the physical environment, the American pioneers believed strongly in the right of self-rule and the untrammelled freedom of business and enterprise.

The American contact and conquest of their frontier wilderness has, in the view of Frederick J. Turner, created a democracy with dynamic qualities unique in the world. Harold Laski paraphrases Turner in describing the frontier influence on American democracy:

The frontier, in Turner's view, remade man. It bred, as no other influence bred, the sense of freedom, the concept of the citizen who depended upon himself and called no man master. ...As [the pioneer] battled with the massive forces of nature arrayed against him, he dreamed of a new society which, out of the frontier's natural freedom, would

be both inescapably a democracy and devoted to the welfare of the common man. Turner insisted that frontier democracy was natural. It evoked the fierce love of freedom, the strength that came from hewing out a home, making a school and a church, and creating a higher future for his family. He contrasted this democracy which nature evoked with the older pattern. ...Thus, in America, democracy is naturally a condition implicit in the mental climate born of the physical environment, whereas, in Europe, it is an artificial contrivance imposed on that environment and not planted there by nature.³⁶

This desire for and the fact of self-determination meant that the law and law enforcement of a particular American frontier area represented the special interests of the settlers of the area. Because people literally took the law into their own hands, formalized law lagged behind the settlement of the American frontier to a considerable degree, both temporally and in degree of sophistication.

In Canada, according to S. D. Clark:

The claims to the interior of the continent were staked not by advancing frontiersmen, acting on their own, but by advancing armies and police forces, large corporate economic enterprises and ecclesiastical organizations, supported by the state. The Canadian political temper (and ideological), as a result, has run sharply counter to the American. Those creeds of American political life - individual rights, local autonomy, and limitation of executive power - which have contributed so much to the political strength of the American community have found less strong support within the Canadian political system. Canada sought political strength through alliance with the North American Indian and the support of ties which bound her people to the Old World and to a highly centralized federal system.³⁷

³⁶Harold J. Laski, The American Democracy, op. cit., p. 741.

³⁷S. D. Clark, The Developing Canadian Community, (Toronto: University of Toronto Press, 1962), p. 214, 215.

The frontier development in Canada was viewed more as an extension of the British Empire than as the development of a completely new society. This outlook, plus a measure of cautious defensiveness against American absorptionist tendencies led to:

...the established tradition of British North America that the power of civil authority should operate well in advance of the spread of settlement.³⁸

An examination of the Farmer and Richman variables relating to the Canadian Religious-Ideological system follows.

Attitude Toward Education

A society's attitude toward education is the most important determinant of the extent, quality, and content of the overall educational and training system in that society. This is to say that the goals or values of Canadian society will be operationalized either directly or indirectly, within the educational system.

There are eleven different educational systems in Canada, one for the Federally administered Territories and one in each of the ten Provinces. There are also eleven attendant sets of attitudes or philosophies and attitudes being identified between French and English speaking provinces. On a national basis, generalized differences in attitudes toward education between English speaking Canadians and Americans have been identified as follows:

The data indicate that Canadians, as a group, assigned considerably higher priority than did Americans to knowledge, scholarly attitudes, creative skills, aesthetic appreciation and morality, as outcomes of schooling. Americans emphasized physical development,

³⁸Edgar W. McInnis, The Unguarded Frontier, (Garden City: Doubleday, 1942), p. 307.

citizenship, patriotism, social skills and family living much more than did Canadians.³⁹

It would seem that Canadian values vis a vis education have leaned toward the English model, emphasizing the liberal, humanistic tradition of individual development rather than the pragmatic American approach which emphasized the implemental or materialistic tradition.

The effectiveness of the resultant educational system and its degree of fit with the requirements of a modern industrial society will be discussed later.

Attitude Towards Achievement and Work

North Americans generally, Canadians specifically, are thought to be more achievement-oriented and to hold more positive values towards work than most of the traditional societies of Europe and Asia. The cultural adoption of the Calvinistic ethic, which has a positive view of work for work's sake, and a favourable view regarding the accumulation of wealth through effort, facilitates high achievement motivations and good work habits within the North American environment. The qualification necessary is that achievement motivations in North America tend to be more individually-orientated than is the case in, for example, Japan or the Soviet Union. These nations seem to have high achievement values, but their orientation is more toward the corporate and state goals respectively.

³⁹Lawrence W. Downey, The Task of Public Education, (Chicago: Midwest Administration Center, 1960), p. 44, in Lipset, Revolution and Counter-Revolution, op. cit., pp. 35-36.

S. M. Lipset, in comparing the central values of American and Canadian societies, used dichotomous categories of modes of interaction as the basis for his differentiation of the two societies. In an ordinal ranking of the two societies along the dimensions of achievement -- ascription, and self-orientation -- collectivity-orientation, Lipset found the American culture holding the achievement and self-orientation dimensions in greater intensity.⁴⁰ These modes of interaction refer to the concept that a society's value system may emphasize that a person in his orientation to others: (1) treats them in terms of their abilities and performances or in terms of inherited qualities (achievement - ascription): (2) perceives the separate needs of others or subordinates the individual's needs to the interests of the larger group (self-orientation -- collectivity - orientation).

Cultural differences, between the United States and Canada, with regard to achievement motivations are best exemplified by the differences in access to and utilization of the post-high school systems in the two nations. Again from Lipset:

[In the American School System] ... the principles of the "common school" and equal opportunity for success" remain viable educational ideals. In the United States the effective emphasis on achievement and on equality of opportunity is reflected by the demands of lower-status individuals for access to education as a means to success, and the recognition by the privileged that education as a means to success must be given to all who are qualified. By contrast, in Canada education has had a more elitist and ascriptive import. These value differences are indicated by a comparison of college enrollment figures. In Canada only 9.2 percent of the 20 to 24 year old age

⁴⁰S. M. Lipset, Revolution and Counter-Revolution, op. cit., p. 32.

group compared to 30.2 percent in the United States were enrolled in institutions of higher learning in 1960. Even on the secondary school level, the United States showed a higher level of enrollment (76 percent) than Canada (64 percent).

It has been suggested that elitist tendencies among Canadians account for the education of a limited few at the college level. Some Canadian writers have pointed out that until very recently education in their country was designed to train an ecclesiastical and political elite much in the British tradition.⁴¹

Attitude Towards Wealth and Material Gain

The key to a viable free-enterprise economy is a population whose values regarding wealth and material progress enable a stable and sustained cash nexus to develop between resource owners and resource users. In such a society, wealth begets status, the means of acquiring wealth is less important than the actual acquisition, thus all strata of the society can "improve themselves" through material gain. This is not to imply that status is the only condition served by wealth and material gain. In Canada, wealth is also a vehicle for satisfying security and power needs. Of interest here is to what degree do the attitudes of the majority of the Canadian population toward wealth and material gain, regardless of the motives which foster these attitudes, result in good work habits, high levels of consumption, and a type and level of savings that is conducive to a high level of economic activity? Important also is that a sufficient number of individuals will enter into business careers as a means to acquisition of wealth. The actual resultant material gain, beyond a certain point, is probably symbolic in representing

⁴¹S. M. Lipset, Revolution and Counter-Revolution, op. cit., p. 34.

many different dimensions of individual satisfactions or achievements.

Canadians, when compared with other nationalities in rating various occupations according to the amount of prestige associated with that occupation, had a high rank correlation (.094), with the choices made by a similar sampling of Americans. The correlation of Canadian rankings with other nationalities were as follows: Germans, 0.74; Britains, 0.85; New Zealanders, 0.89; and Japanese, 0.90.⁴²

The implication here is that although it would be highly presumptuous to set up the characteristics of Americans in toto as representative of an "Ideal Type", the adaptability of Americans to extensive industrialization cannot be denied. Therefore, the high rank correlations between Canadians and Americans on occupational prestige, if such scores are in any way transferable to attitudes regarding wealth and material gain, would tend to indicate that this variable is not a negative constraint in the Canadian environment.

Attitude Towards the Scientific Method

Farmer and Richman observe:

Western countries which tend to have the most favourable attitudes toward scientific method are those which have traditionally been influenced strongly by the protestant Calvinist philosophy. This blend of religious spirit and rational thinking in regard to things material has been particularly noticeable since the beginning of the nineteenth century in countries such as England, the Scandinavian countries, Germany, Benelux, and the United States.⁴³

⁴²Bernard R. Blishen, "The Construction and Use of an Occupational Class Scale", in Blishen, Canadian Society, op. cit., p. 479.

⁴³Farmer and Richman, Comparative Management, op. cit., p. 191.

These authors qualify this statement somewhat:

It is also fallacious to conclude that all extensively Calvinistic countries apply scientific methodology with equal effectiveness to managerial and business problems. As compared to practises in the United States, in some of the advanced western European nations - for example, Great Britain - where management is not generally considered a profession based on its own body of theory or scientific underpinnings, less use tends to be made of scientific methodology in such areas as planning and decision making, budgeting and control, and personnel testing and appraisal, and greater reliance is placed on intuition. There is also less use made of staff specialists and various types of experts who make considerable use of scientific methodology in aiding management in solving a wide range of business problems.⁴⁴

Canada, to some extent, and for various reasons, is subject to the same qualifications as Great Britain with regard to application of the scientific method in business. Illustrative of this point is a feature article in the Financial Post:

It is well known that Canadians invest only about half as much money per capita on computing systems as do Americans, but the comparison of surveys now shows that Canadians, for some reason, either cannot or will not exercise the muscles of their computers as much as they might. Example: in the Financial Post survey, only 9.6% of respondents use computers in research and development activities: the corresponding figure in the U.S. is 24%. Only 7.7% [of] Canadian respondents use computers for market research, versus 19.3% [for] American respondents.⁴⁵

Attitude Toward Change

It is generally recognized that the more a given change threatens or appears to threaten the status quo of a society's authority and value

⁴⁴Farmer and Richman, Comparative Management, op. cit., p. 193.

⁴⁵Article, Financial Post, November 14, 1970. p. E-1.

structure, the greater the group's resistance to change and the greater the social cost associated with that change. Farmer and Richman quote F. Keesing who observes:

In relation to ideological and value systems ... the thesis seems inherent in recent work by a number of students that if, under conditions of change, the basic cultural rationale retains its validity even extensive behavioral changes can take place without threat to group or individual integrity and morale...But if these basic elements are threatened or undermined the group or individual concerned is likely to lapse into states of disorganization, insecurity, anxiety, self-depreciation, and low morale, though usually accompanied by attempts to establish a new rationale ... Several theorists have suggested that, so long as the basic value system stands reasonably firm, selective changes can proceed with minimum strain and stress.⁴⁶

S. D. Clark argues that Canada is fundamentally a bureaucratically - structured type of society where individual advancement is won by gaining favour among the elitist middle-class who are very much in control of the economic, political, cultural, and religious systems. Clark maintains that the privileged upper and middle class tend toward conservatism and elitism as a consequence of their vested interest in the status quo.⁴⁷

Thus, Canadian society, vis a vis American society, is less favourably inclined toward embracing change. In the United States change usually implies more opportunity for all; as opposed to the Canadian view, particularly of the upper classes, that change would be detrimental to their traditional position of pre-eminence.

⁴⁶Keesing, Cultural Change: An Analysis and Bibliography of Anthropological Sources to 1952 (Stanford, California: Stanford University Press, 1953), in Farmer and Richman, Comparative Management, op. cit., p. 218.

⁴⁷S. D. Clark, The Developing Canadian Community (Toronto: University of Toronto Press, 1962), Chapter XV.

CHAPTER V

The Canadian Social System

Within the Vertical Mosaic that is Canada there are certain core values on which group solidarity is based.⁴⁸ These ideals and attitudes can be identified as those which are predominant among the urban middle-class. No claim is made as to the universality of these beliefs other than saying that the majority of the English-speaking population have historically aspired towards them. In support, Dennis Wrong points out that the prevailing images of American and Canadian life presented by the mass media reflect urban middle-class values and styles of living.⁴⁹

In an unpublished thesis, R. A. Nobbs concludes:

Relative to the American society, the Canadian society places a higher value on conservatism and a lower value on equalitarianism, achievement, mobility, individualism, universalism, and specificity. In other words, Canadians' belief in these dominant values is more intense and less intense respectively than that of Americans. This means [implies] that the Canadian society is less dynamic; more restrained, traditional, and unchanging; more tolerant of economic inequalities and social stratifications; more restricted and intolerant of lawlessness; less prone to placing high emphasis on hard work, education, and new technology; more satisfied with the present level of attainment and places less emphasis on increasing productivity: more parochial or regional in outlook; more willing to accept differential treatment ... than the

⁴⁸John Porter, The Vertical Mosaic (Toronto: University of Toronto Press, 1965).

⁴⁹Dennis Wrong, "Background for Understanding", in Richard Laskin, Editor, Social Problems, A Canadian Profile (Toronto: McGraw-Hill Co., 1964), p. 27.

American society.⁵⁰

The outline of the Farmer and Richman variables as related to the Canadian social system follows:

Attitude Toward Industrial Managers and Management

With regard to this dimension, Farmer and Richman observe:

The more favorably a particular society views industrial managers and management, the less likely it is that the profession will lack capable recruits; and in a favourably inclined society it would also be easier to attract competent persons to work under and with the managers of industrial enterprises. The on-going managerial task would obviously be made more effective and easier by the availability of capable individuals who are eager to spend their careers as productive enterprise managers, or as persons working for and with them. In an environment where managers are respected and highly regarded, there would tend to be greater cooperation and trust, and less conflict, between managers and employees, and also less unproductive time and greater overall efficiency.⁵¹

In a study of 343 Canadian occupations ranked according to combined standard scores for income and years of schooling required, the ranking most closely approximating that of industrial manager, (other professions), ranked 29th from the top ranking.⁵² This rating is supposed to indicate the prestige associated with the occupation; prestige being associated with the degree of specialized training required and the amount of responsibility involved in the occupation.

⁵⁰R. A. Nobbs, "Canadian Values and Organizational Behavior" (unpublished M.B.A. thesis, University of Alberta, 1967), pp. 72-73.

⁵¹Farmer and Richman, Comparative Management, op. cit., p. 115.

⁵²B.R. Blishen, "The Construction and Use of an Occupation Class Scale", in Blishen, Canadian Society, op. cit., pp. 477-485.

It is also of interest to note that the "other professions" classification was placed in Class II. Class I, was composed of 10 rankings of professional occupations including, judges, doctors, architects, lawyers, and engineers. Although some of these occupations and business careers are not mutually exclusive, the fact remains that Canadian business does not attract the "best" of society. Referring back to the wealth and material gain variable, a correlation of 0.94 between American and Canadian occupational prestige rankings would indicate that the situation in Canada is close to the American experience. As a limiting factor within the Canadian environment, the situation may be critical in view of the proportionately smaller number of Canadians receiving post-secondary school education.⁵³

View of Authority and Subordinates

In this dimension, Farmer and Richman are concerned with the dominant views of authority and subordinates in a given society. These overall societal attitudes tend to result in certain dominant patterns of managerial authority in leadership styles along the authoritarian-democratic or participative continuum. With regard to the influence upon organizational effectiveness of this variable, Farmer and Richman observe:

It does appear, however, that in some countries such dominant views and behavior patterns are much more "culture bound" than in others. In such cases the environment serves as a much more potent and pervasive constraint upon industrial enterprise managements in

⁵³S. M. Lipset, Revolution and Counter-Revolution, op. cit., p. 34.

their exertion of authority and in their relations with subordinates, and it would generally be much more difficult and risky to go against tradition.

In Japan for instance, managerial effectiveness and productive efficiency may suffer greatly if the enterprise deviates substantially and abruptly from the traditional Japanese practice of paternalistic management. Similarly, it is likely to be much more costly, time consuming, and risky to introduce substantially greater participative management effectively in industry in Peru, Saudi Arabia, India, or even Germany, as compared to the U.S., Canada, Great Britain, Russia, or Yugoslavia.⁵⁴

The over-all societal attitude in English-speaking Canada towards authority and superior-subordinate relationships would lie somewhere between that of the British and the Americans.⁵⁵ The Canadian heritage of conservatism and elitism would tend to make Canadians less democratic in work relations than most Americans, therefore more authoritarian; but the myriad of contacts made with Americans, and things of American origin, push Canadians close to the American mold in this environmental dimension.

Class Structure and Individual Mobility

S. D. Clark outlines the historical development of the Canadian middle class into the position of dominance that he feels that class holds in contemporary Canadian society:

The Canadian middle class has grown up, very largely, within a bureaucratic structure of power - economic, political,

⁵⁴Farmer and Richman, Comparative Management, op. cit., p. 121

⁵⁵Farmer and Richman, Comparative Management, op. cit., p. 135, British management has been described by one leading expert as being less authoritarian and patriarchal than in France, less paternalistic than in Germany, and less constitutional, (or democratic) than in the United States.

ecclesiastical. Typically, the Canadian middle class person has been an office-holder, whether in the service of government, a business corporation, church or other such type of bureaucratic organization. Individuals seeking to advance themselves outside the bureaucratic order have tended to a very large extent to cross the border into the United States. ...The Canadian middle class has maintained its middle class position, not be engaging in the competitive struggle which the larger American continental system invited but by building about itself, in this more restricted, and in terms of physical resources poorer, area of the continent, a very large closed bureaucratic system of control. Such a middle class has inevitably remained small but it has been one which, in control of the strategic institutions of the Canadian society, could wield enormous influence and power. It was upon the support of this middle class, for more than two centuries, that the colonial tie of Canada with the old world depended, and it has been upon its support that has depended very largely, in the years since Confederation, the tie of nation. In a way scarcely true of any other Western nation, the middle class, in Canada, has been the Establishment.⁵⁶

The works of Blishen in Canadian Society, and of Porter in The Vertical Mosaic, support very strongly the claim that the "Establishment", composed of both upper and middle classes, is largely composed of W.A.S.P.s.⁵⁷ Blishen, using 1951 Canada Census data, found that although Canadians of Anglo-Saxon origin represented only 49% of the total population, they dominated the four upper classes of his seven occupational classes scale in the following proportions: Class I, 66.3 percent; Class II, 54.0 percent; Class III, 64.5 percent; and Class IV, 59.6 percent.⁵⁸ Porter, in his study of the economic elite and Canadian social structure found that in his sample, 63.0 percent were of some branch of the

⁵⁶S. D. Clark, The Developing Canadian Community, op. cit., p. 234.

⁵⁷W.A.S.P. - White, Anglo-Saxon Protestants.

⁵⁸Blishen, Canadian Society, op. cit., p. 485.

Protestant faith.⁵⁹

The impediment to vertical mobility for individuals in the Canadian society has been the inability, or the unwillingness, to make the educational system, or systems, truly egalitarian. Porter has outlined some of the social and psychological barriers to equal educational opportunities for all capable individuals in Canada, and has thus elucidated one of the most critical environmental constraints on industrial flexibility. Porter has enumerated four critical social barriers and one psychological barrier within the society and the educational systems that inhibit full development of Canada's human resource potential:

Of the social barriers the most obvious is the inequality of income and wealth. Education costs money and regardless of how free it may be, lower income families tend to take their children out of school at an earlier age and put them to work. ...A second social barrier is family size. ...invariably in industrial societies lower income (and social class) groups have larger families. The child, therefore, born into a lower income family has almost automatically a greatly reduced horizon of opportunity.

A third social barrier to equality of education lies in the regional differences in educational facilities in Canada ... A fourth source of inequality arises from the great influence that religion has had on educational policies. The least adequate education facilities for an industrialized society, ...have been those in Quebec where education for French Catholics has been not only costly but at the secondary level concentrated within the tradition of the classic college.⁶⁰

The psychological barrier contained in most Canadian educational systems is the assumption that the motives exhibited by upper and middle class children are "natural" and are thus distributed throughout all

⁵⁹John Porter, "The Economic Elite and the Social Structure", in Blishen, Canadian Society, op. cit., p. 495.

⁶⁰John Porter, The Vertical Mosaic, op. cit., pp. 168-169.

than for a Canadian Eskimo! At a more empirical level, a study undertaken by David C. Shaw, indicated that Canadian investors have provided funds at remarkably reasonable rates to finance risky projects, and that they have done so over long periods of time.⁶⁴ As of 1965, G. R. Conway calculated the proportion of Canadians holding dividend paying equities at about 5 percent as opposed to about 10 percent of the American population. Conway, in part, attributes this difference to the higher average incomes received by Americans.⁶⁵ Also, studies by the Montreal Stock Exchange, and examination of the shares of the Canadian investment dollar going to each industry, contradict the claim that Canadians are "less willing to take risks" than Americans.⁶⁶

At the corporate level, the Royal Commission on Canada's Economic Prospects makes the following observations regarding Canadian investors' willingness to engage in risky ventures:

...(the accusation is) that Canadians as investors are too timid and are unwilling to undertake large projects which require a great deal of capital. It is quite true, as we have said, that Canadians have had insufficient capital to undertake alone many of the larger projects which have been developed in recent years. But this does not mean they have been unwilling to participate in such ventures. In fact quite the opposite is true. Furthermore, it should

⁶⁴David C. Shaw, "The Market for New Equity Issues in Canada", Unpublished Thesis, University of Pennsylvania, 1969, p. 120.

⁶⁵G. R. Conway, The Supply of, And Demand For Canadian Equities (Toronto: Toronto Stock Exchange, 1968), p. 8.

⁶⁶T. N. Brewis, H. E. English, Anthony Scott, and Pauline Jewitt, Canadian Economic Policy, Revised Edition (Toronto: MacMillan Company, 1965), p. 108.

classes. This assumption seems to be false and makes it extremely difficult for children of another cultural milieu to relate to the system.⁶¹

Attitude Towards Risk-Taking

Farmer and Richman deal with the risk taking variable at the individual, firm, and national level. They identify the ideal environment as:

... one in which there is an extensive and diverse system of high quality education at all levels; a favorable view toward scientific method, achievement, and change; and a high degree of interorganizational cooperation which permits the extensive generation, dissemination, and utilization of information and knowledge relevant to rational individual, firm and national decision-making.⁶²

Canadians have long been reminded of their conservative outlook and thus, it is intimated that Canadians are risk averters to the extent that it is detrimental to growth and development. The fact that Canadians are well insured compared with people in other countries; with each household having an average of over \$17,500 in life insurance in force, which accounts for 17 percent of Canadians personal savings, would tend to support the hypothesis of Canadians as risk averters.⁶³

What amounts to rational risk taking however, is a relative concept, for example, the loss of one's outer garment in a risky venture or gamble would be a much less serious occasion for a South Sea Islander

⁶¹John Porter, The Vertical Mosaic, op. cit., pp. 172-3.

⁶²Farmer and Richman, Comparative Management, op. cit., p. 201.

⁶³D. B. S., Canada 1970 (Ottawa: Queen's Printer, 1969), p. 220.

be stressed that risk-taking by investors is a relative concept. Investment undertakings which would entail a considerable element of risk for Canadians are often a routine operation for large non-resident corporations. The Canadian venture, large though it may be by Canadian standards, is typically only a small part of the non-residents global operations. Furthermore, as we have noted, the non-resident corporation may be expected to have the ancillary facilities including technology, skills and markets, in the abundant quantities which are required to reduce the risks involved to more or less negligible proportions.⁶⁷

In conclusion, it seems evident that by reason of history, physical environment, and perhaps the middle class "establishment's" desire to maintain the status quo, Canadians are more "conservative" than Americans. The evidence on just where Canadians lie on the risk taker - risk averter continuum is less clear. The attitude of Canadians toward risk taking is not thought to be highly critical to organizational effectiveness in Canada, given Farmer and Richman's requirement that effective risk taking involves:

...moderate, calculated risks-given their boundaries of rationality-which entail some challenge but at the same time a relatively good chance of payoff and success.⁶⁸

⁶⁷Canada, Walter L. Gordon, Chairman, Final Report-Royal Commission on Canada's Economic Prospects (Ottawa: Queen's Printer, 1958), p. 386.

⁶⁸Farmer and Richman, Comparative Management, op. cit., p. 203.

CHAPTER VI

The Canadian Judicial System

In Canada, by virtue of the British North America Act, the legislatures of the various Provinces have vested in them sole jurisdiction over certain matters which the remaining jurisdiction is vested in the Federal Parliament. The provincial legislatures in turn have delegated certain powers to municipalities - counties, districts, cities, townships, towns and school corporations - for the purposes of self-government at the local level. Also, incorporated companies are granted powers to pass by-laws and adopt constitutions which are as binding on their members in all things pertaining to their association as any other laws. As a result, such members must exhaust the machinery provided by their association to redress wrongs before appealing to a court of law.

There are two main divisions of Canadian law, statute law and common law. Statute law encompasses all acts of any legislature, which in turn are interpreted by the courts as disputes arise. Common law, which comprises the bulk of our law, found its origin in the early days of England. It is founded on the decisions of judges, and is therefore also called case law. Common law is based on precedents founded by earlier cases - even though it may be difficult to apply to new cases - but it must be necessarily so, and it is deemed better that the principles be applied, and the law be known, than that it be so elastic and changeable that it could not be said to be known.

The law of England, Canada, and the United States is quite similar, owing to the fact that all the Provinces of Canada, except Quebec, and all of the States of the Union, except Louisiana, have at their origin the common law of England.

Quebec and Louisiana adopted the old French law, which was founded on Roman law or "civil law". The Civil Code of Quebec is based on the old French law, on the Code of Napoleon, the Code of Louisiana, and parts of common law.⁶⁹

Farmer and Richman's concern with the judicial system is in regard to the overall quality, efficiency, and effectiveness of the legal structure within a country and the resultant climate for business enterprises. A discussion of Farmer and Richman's two general constraints follows:

Relevant Legal Rules of the Game

The categories of law discussed here include; business law, (property rights, patent law, incorporation requirements, etc.), general law, (pollution regulations, etc.), laws affecting prices, antitrust and cartel legislation, labour law, and tax law.

Significant differences can be noted between Canadian and American law such as the following:

(1) Business Law

In Canada, the Crown or Government owns all of the natural resources, land owners normally hold only surface rights and natural resource

⁶⁹ Frederick R. Hume, editor, Anger's Digest of Canadian Law, Nineteenth Edition (Toronto: Canada Law Book Company Ltd., 1967), pp. 1-3.

developers lease exploration rights and pay royalty fees on minerals used. This tends to put resource development companies "on the side of the angels" in terms of access to property and development activities compared to the United States where the property holder reigns supreme.

The variances between Ontario and Quebec rates of bankruptcy can be traced to the differences between English common law and French civil law. Quebec, with approximately 24 percent of the nation's commercial activity, in 1964 accounted for approximately 48 percent of the 2972 corporate bankruptcies in that year.⁷⁰ This high incidence of bankruptcies in Quebec is in part, a consequence of the almost "casual" legislation regarding this matter.

(2) General Law

Although generally in Canada, a riparian owner has the right to the flow of water in its natural and unpolluted state, in Nova Scotia certain kinds of business relating to milling, mining, smelting, etc., cannot be sued for pollution provided the undertaking is carried on with "due" care.⁷¹

(3) Laws Affecting Prices and Competition

The Combines Investigation Act provides for most pricing legislation in Canada and has the power to hold corporate officers personally responsible for violations. The dominant theme of most legislation regulating business has been to provide adequate protection for the

⁷⁰D. B. S., Canada Yearbook, 1967 (Ottawa: Queen's Printer, 1967), p. 940.

⁷¹Hume, Editor, Angers Digest of Canadian Law, op. cit., p. 321.

consumer and for maintenance of a competitive atmosphere.

(4) Labour Law

Aside from setting minimum wage standards on federally financed projects, the Federal government leaves labour legislation to the Provincial governments under the provisions of the B.N.A. Act.⁷²

(5) Tax Laws

Under the terms of the B.N.A. Act the Provincial governments are limited to levying direct taxes only. The Federal government may levy both direct and indirect taxes for generating revenue. Corporations are taxed in Canada, but the tax rate structure is such as to encourage the formation of companies. Capital gains are not taxed in Canada, and depletion allowances are granted to companies engaged in exploiting non-renewable resources.

In conclusion, because there are eleven different legislatures capable of enacting statute law, and innumerable local bodies empowered to pass bylaws, it is impossible to state unequivocally the relevant "legal rules of the game" for business in all of Canada, except that on an international comparative basis, the atmosphere has been agreeable to the formation and activity of business enterprises.

Flexibility of Law and Legal Change

Again, generalization is difficult given the multitude of governmental bodies that can enact legislation or bylaws that could effect organizational effectiveness in Canada. At the federal level, and to

⁷²R. M. Dawson, Democratic Government In Canada (Toronto: University of Toronto Press, 1957), p. 155.

some extent at a provincial level, the approach to change has followed a particular pattern. This pattern has been: (1) the awareness at the legislative level of a need for change, (2) appointment of a Royal Commission to research the problem, receive submissions from interested parties, and publication of a report of conclusions and/or recommendations, (3) the drafting and publication of a "white paper" by the government department involved that lists the proposed legislation for enacting change, (4) enactment of the proposed legislation or recycling at stage 2 or 3 depending upon public reaction at the white paper stage. This approach is being taken at present with regard to the Federal taxation structure. This incremental approach to change provides an opportunity for all concerned parties, (business in this case), to present their views and also serves to reduce uncertainty with regard to the nature of future environmental constraints.

CHAPTER VII

The Canadian Political System

The Canadian political system will be examined within the context of five environmental constraints drawn from the listing of Farmer and Richman.

Political Organization

R. MacGregor Dawson has outlined the main characteristics of Canadian political organization as follows: democratic, representative, responsible, federal, guided by rule of law, and having an independent Judiciary. The discussion of these main characteristics will draw upon Dawson's work.⁷³

A government is democratic when it is controlled by the greater part of the people within that nation.

Canadian government is representative in that the House of Commons, the provincial legislatures, and the local or municipal councils are all composed of representatives, elected by the people to act in their name and on their behalf. In responsible or parliamentary government the executive is part of and responsible to the larger legislative body. This form is in contrast to the American system where the executive and legislative bodies are separate in terms of power and accountability to the electorate.

⁷³ R. MacGregor Dawson, Democratic Government In Canada, Revised Edition (Toronto: University of Toronto Press, 1963), pp. 3-14.

In a federal form, governmental powers are distributed between a central or federal government on the one hand and a number of provincial governments on the other and each exercises its own powers without being subordinate to the other. In Canada this separation of powers is based on the British North America Act which enumerates the powers of the provinces and gives the "residual" powers to the Dominion government.

The concept of rule of law means that the government itself is controlled by the law and must operate according to its terms, thus all acts of government must be based on statute or common law and not on the whim or caprice of the officials who may happen to be in authority.

The independence of the Judiciary who are not elected, but appointed until age seventy-five, assures that any complaints against or between levels of government will be adjudicated without fear of any intimidation or control by any executive or legislature.

On the whole, the political organization of Canada is reasonably favourable to the efficient operation of business enterprises; government action is reasonably rational and predictable and government departments are subject to most of the same laws of the land as business.

The main problem faced by business is probably the situation of jurisdictional overlaps that are a consequence of the federal system. A business operating in any one province is subject to at least two, (federal and provincial) and possibly three (including municipal) political jurisdictions. This situation undoubtedly leads to some confusion and uncertainty for business enterprises, but the more arbitrary hierarchy of Canadian courts may enable final resolution of problem situations more readily than is the case in the somewhat parallel problem in the United States.

Political Stability

Political stability at the national or federal level in Canada has been extremely good. The two major parties in Canadian politics, the Liberals and the Conservatives have alternated between being the "Government" and the "Loyal Opposition" since 1867. These two parties, whose ideological differences tend to be minimal, can be termed "broker" parties. "Broker" parties tend to be "cross-sectional" in their leadership and electoral support. Canadian politics at the national level have tended to be moderate, reflecting the middle class values that seem to characterize Canada's national posture.

Political stability at the provincial level has been more volatile and is less subject to generalization. The provincial political scenes, being smaller units have been more susceptible to the influences of the "missionary" parties who have appealed to certain segments of the population. Canadian political philosophy in general could be placed nearer the social-welfare democracy end of the continuum vis a vis the American political philosophy. Socialism in Canada has largely been of the agrarian variety which has achieved electoral dominance only at the provincial level. The most notable example has been the Co-operative Commonwealth Federation (C.C.F.) party which was in power in Saskatchewan from 1944 to 1964. This "grass-roots" political movement was to a large part a regional "protest" to the perceived domination of the Western Provinces by the more populous and more wealthy Central Provinces. During its reign, the C.C.F. nationalized the major provincial power, transportation, and timber industries.

Again to caution against any generalization, the Social Credit Government of Alberta, which emerged in 1935 under the hardships of the depression and the same almost paranoiac reaction to "powerful financial interests in the East", proved to be, and still is, extremely receptive to capitalistic-type resource development.

In conclusion, political stability in Canada varies from province to province, but in regard to the uncertainty faced by businesses as a result, over the long term, the changes have not been drastic enough to make Canada unattractive for investment capital.

Interorganization Co-operation

There are economic, legal, and sociological pressures of various degrees in any society for co-operation among productive units. Inter-organizational co-operation in this instance will focus on the following combinations of organizations: (1) co-operation between levels of government, (2) government-industry co-operation, and (3) union-management co-operation.

(1) Co-operation between levels of government and between government bodies at the same levels has varied in degree almost in proportion to the number of possible combinations of government levels. There are examples of excellent inter-government co-operation in the areas of regional economic development programs and in national health and welfare schemes, but there are also instances of jurisdictional disputes that have had to be resolved in the Supreme Court of Canada. The problem for business has been in determining which level of government's "rules of the game" are to be followed where there are jurisdictional overlaps. An example would be in the area of pollution control where

the Provincial Department of Lands and Forests and the Federal Department of Fisheries and Forestry both have regulations that in total can be confusing in that they may serve conflicting purposes.

(2) Government-industry co-operation in Canada has been quite good. The most recent example is the formation of Panarctic Oils Limited which is a consortium composed of private companies and the Federal Government which holds a 45% equity. The venture was formed to exploit possible commercial oil and gas deposits in the Canadian Arctic Archipelago. Government involvement in industrial ventures through the establishment of Crown Corporations has been quite extensive at both the federal and provincial levels. The fact, for example, that a Crown Corporation, Air Canada, and Canadian Pacific Airlines, a private company, can compete in the air transportation industry without any apparent harmful effects for either indicates that at present government activity in industry is viable in some areas. However, government-industry-labour co-operation in the area of price and wage controls has been less than spectacular. The Federal Prices and Income Commission was formed in 1969 with the intention of guiding a program of "voluntary restraint" among industry and labour in order to ease inflationary pressures by all concerned parties exercising "enlightened self-interest". The program failed in restraining wages and prices in the critical industries and will be disbanded in 1971.

(3) Union-management relations in Canada have been relatively calm with gains to labor following a slight lag relative to gains in American labour unions. Seventy percent of Canadian unions' membership were affiliated with American unions in 1966 and their bargaining behavior is probably proportional to their numerical strength.⁷⁴

⁷⁴D. B. S. Canada Yearbook, 1967, op. cit., p. 783.

Foreign Policy

Gerard Bergeron has outlined Canada's position in world affairs:

Canada's international relations since 1945 can be roughly divided into two parts: our bi-lateral relations with the United States, and our relations with the rest of the world, including the principal international organizations such as the U.N. and N.A.T.O. Washington's point of view and decisions (and London's to a lesser extent and on fewer issues) are often given more consideration than the basic facts of the issues as such.⁷⁵

Given these constraints upon Canada's international posture, and the following observation by Farmer and Richman, the effect of Canadian Foreign Policy on business can be put in perspective. Farmer and Richman observe:

Highly protected local enterprises, from California to Leningrad to Sao Paulo, are more noted for high prices, inept management, and inferior workmanship than they are for their contribution to national welfare. Here a real conflict often arises, as individuals and governments are torn between their desire to obtain the best at the lowest prices and their desire to protect jobs, prestige, and welfare at home.⁷⁶

Protective tariffs for Canadian industry have been a part of "National Policy" since 1878. The intent of the "National Policy" was to create an integrated national economy. The trans-continental railway, in effect the forging link of Canadian Confederation, now linked together the separate regions of Eastern Canada, the Prairies, and British Columbia. A protective tariff would promote the growth of

⁷⁵Gerard Bergeron, "Foreign Affairs:", in J.M.S. Careless and R. Craig Brown, The Canadians 1867-1967 (Toronto: Macmillan of Canada, 1967), p. 803.

⁷⁶Farmer and Richman, Comparative Management, op. cit., p. 262.

industry in Eastern Canada, and its products would be carried by railway to markets in the West. This east-west movement of goods would serve a double purpose; it would join the regions by economic ties, and it would assure traffic for the trans-continental railway. Without the tariff, the West might obtain its supplies from the Western United States: in that case, there would be little industrial expansion in Eastern Canada, and the railway, the key to Confederation, would be starved for traffic.

Canadian protectionist policy has since evolved to include; restrictions and selective tariffs on certain imports, subsidies in various forms to domestic industries largely on a regional basis, and export restrictions on certain raw and semi-processed products. The most pervasive rationale for protectionism is the desire of Canadians to maintain the political entity that is Canada, for without strong economic ties Confederation would be meaningless. Protectionism is also argued on the grounds that the economic laws of comparative advantage would relegate Canadians to being "hewers of wood and drawers of water" for the more advanced industrial nations. Protectionism thus encourages the establishment of secondary and tertiary industry which provides depth and balance to the economy.

The so-called "infant-industry" argument has also been advanced for protectionism. The thesis is that government, by extending assistance, brings about the establishment of a new industry that otherwise would not be able to develop in the face of competition from large, mature, foreign industries. This argument brings to focus the effect upon organizations operating in Canada of protectionism. Whether the effect on a firm is positive or negative is impossible without specifying

the size, age, and location of ownership of that firm or group of firms in an industry. For the fledgling firm the protection is certainly a benefit, in fact in many instances it may well be its only economic justification in light of the economies of scale in some industries. For the large, mature firm, the long run effects of operating domestically under the umbrella of protection may have resulted in inefficiencies both internally and within the domestic industry such that the firm is unable to effectively compete in the international market.⁷⁷

Canadian involvement in the Commonwealth of Nations has been an important part of Canada's Foreign Policy. The Commonwealth is composed of 28 member states, including Canada; 6 of those member states are in the top twenty list of Canada's prime export markets.⁷⁸ Canada also is fairly pragmatic in concentrating its foreign aid in those areas of "special interest" in terms of future trading opportunities. For example:

In the 1967-68 fiscal year, allocations (of foreign aid) included \$50 million for grants; \$75 million in food aid; another \$1.31 million in debt forgiveness; \$90 million in development loans; \$37.9 million in export credits, which, while not "aid" are extended on beneficial terms to developing countries. ...The oldest and largest of the aid programs is Colombo Plan, under which Canada has made available \$840.3 million in assistance since 1951, mainly to India, Pakistan, Malaysia, and Ceylon. Allocations totalled \$126 million in the 1967-8 fiscal year. Assistance included mainly food, fertilizers, commodities, locomotives, spare parts, the completion of two power projects, a steam generating plant, transmission lines, an airport near Colombo, a natural

⁷⁷Farmer and Richman, Comparative Management, op. cit., p. 262.

⁷⁸D. B. S., Canada 1970, Handbook (Ottawa: The Queen's Printer, 1969), p. 246.

resources survey in Malaysia, and \$3 million of vocational school equipment to a technical teacher's training college.⁷⁹

Thus, nearly all of Canada's foreign aid has represented the export of Canadian goods and services.

Defence and Military Policy

In April, 1969, the Canadian Government re-defined the nation's defence and military policy and in effect recognized Canada's decline from the status of a "middle" world power and also the fact that the defence of Canadian Territory is inextricably linked with the defence of the entire North American Continent. The Prime Minister indicated:

...that as a result of the Government's reassessment of its defence priorities it had been decided that in the future greater emphasis would be placed on the protection of Canadian sovereignty, and the defence of North America in co-operation with the United States.⁸⁰

The implications of this policy for the Canadian defence industry have been that in most areas of production these industries are further relegated to a "support" role. With few exceptions this means subcontracting on American defence projects. This trend, considering the limited defence-production market in Canada, is not all negative in its aspects. The Canada-United States Defence Production Sharing Program, instituted in 1958, gave Canadian firms equal opportunity, in terms of customs duties, to compete with U.S. firms as prime or subcontractors in the U.S. defence business. This program has enabled Canadian firms to

⁷⁹D. B. S. Canada 1970, Handbook, op. cit., p. 94.

⁸⁰D. B. S. Canada 1970, Handbook, op. cit., p. 86.

build up some degree of special competence in specialized areas such as STOL aircraft production and ancillary electronic apparatus. The fact remains though that Canadian defence contractors are in a dis-advantaged position in terms of maintaining a stable production flow in view of their limited capacity to lobby in Washington.⁸¹

⁸¹Science Council of Canada, Report No. 11, A Canadian STOL Air Transport System-A Major Program (Ottawa: Information Canada, 1971), p. 27.

CHAPTER VIII

The Canadian Economic-Technological System

The environmental constraints discussed in this chapter are perhaps those most obviously related to organizational effectiveness and efficiency. The relationships of most of the constraints discussed here to firm efficiency have been well documented in the literature and, with reference to Figure I-2, p. 13, a sustainable argument could be made for depicting a direct relationship between some of the constraints and firm and national efficiency.

The seemingly anomalous inclusion of variables relating essentially to the quality of the labour force is supported by observations made by the Economic Council of Canada.

By far the most important factor of production is the human factor, the labour force, which includes all types of manpower employed in the economy...Roughly three fourths of all income in the Canadian economy accrues to the labour force...Consequently, the quality of the labour force as determined by education, training, skill, managerial competence, and the application of effort, plays a very large role in improving the productivity of the economy.⁸²

General Economic Framework

Perhaps the most fruitful approach to defining the general economic framework of Canada is to outline the basic characteristics of the pure capitalistic system and then, with particular reference to what appears

⁸²Economic Council of Canada, "Towards Sustained and Balanced Economic Growth", Second Annual Review, (Ottawa: Queen's Printer, 1965), p. 170.

to be Canadian Economic Policy, elaborate on its divergence from the pure capitalistic model. Farmer and Richman quote Halm in defining the basic features of a pure capitalistic system as where:

1. Private property is legal. Individuals or firms can hold any form of asset in whatever quantity they choose.
2. The measuring rod for all economic transactions is money. Money is a scarce commodity, in the sense that its supply is restricted, and no one has as much as he might prefer. Scarcity is determined either by the inherent nature of the medium of exchange (such as gold or silver) or by a government process of money creation which assures relative scarcity. This means that money also has value.
3. Persons obtain money incomes by selling services (inputs to firms). Services consist of labor, land, management, or capital. Owners of assets (including the asset of labor service) get incomes based on the value of their assets to productive enterprises.
4. Anyone is free to sell or withhold either his services or his goods in any market.
5. There are no government controls over the economic system. No goods or services are restricted, in the sense that they are not subject to rationing, price controls, or any other controls. Government's main function is to insure law and order and guarantee the sanctity of contracts.⁸³

Brewis et al have outlined the various objectives of Canadian Economic Policy as:

...efficient and equitable resource allocation, an ideal rate of growth, and economic stability at a high level of employment. All of these are designed to contribute to a high level of welfare. These objectives, which have their roots in the political and ideological ends of our society, are the commonplace of public announcements on the subject.⁸⁴

⁸³George N. Halm, Economic Systems (New York: Holt, Rinehart and Winston, 1961) p. 22 from Farmer and Richman, Comparative Management, op. cit., pp. 275-6.

⁸⁴T.N.Brewis, H.E.English, Anthony Scott, Pauline Jewett, and J.E. Gander, Canadian Economic Policy (Toronto: MacMillan Company, 1961), p. 312.

Given the objectives of efficient and equitable resource allocation, an "ideal" rate of growth, and economic stability at high employment, it follows that the "invisible hand" operating through the market mechanism must be "guided" and "controlled" to some extent in order to achieve those sometimes conflicting objectives. The seventeenth Prime Minister of Canada, Louis St. Laurent defended the role of government in "tinkering" with the market mechanism as follows:

I don't think that free enterprise requires that governments do nothing about economic conditions. Governments can - and I believe governments should - pursue fiscal and commercial policies which will encourage and stimulate enterprise, and wise government policies can do a lot to maintain the right kind of economic climate.⁸⁵

Thus, although Canadian Economic Policy as generally stated has a strong orientation towards the welfare aspects, this orientation is ameliorated by the pragmatic conviction that individual welfare is best served by making growth of G.N.P. an equally important consideration.

Similarly in the area of taxation, where Canada ostensibly follows a policy of progressive taxation, the desire to maintain a favourable economic framework for growth has resulted in loopholes in the tax structure which substantially benefit the entrepreneur and business organizations. For example, 'capital gains', unlike the situation in the United States, are not yet taxed in Canada. The tax exemptions on capital gains plus the capacity of a company to "expense" considerably

⁸⁵ Louis St. Laurent, "Speech to Canadian Lumbermen's Association, Montreal, Feb. 9, 1953" quoted in Canada's Tomorrow, edited by G. P. Gilmore, 1954.

more items than can a proprietorship, has encouraged the formation of incorporated businesses in Canada. The willingness of the Canadian Government to subsidize industry, mainly through the mechanism of tariff restrictions on competing products has also created a favorable economic framework for business organizations. The important qualification is that the protective structure created for Canadian industry has to some extent sheltered it from the international competition that would force it to become more efficient in its resource transformation processes. A further effect of protective policies for Canadian industry has been that with few exceptions Canadian industries have not been able to operate on a competitive scale in international markets.

In summary, the general economic framework of Canada is based on the free-enterprise capitalistic system with government participation in economic activities over a wide range of areas based on a philosophy of the function of government much more extensive than in the purely capitalistic model outlined by George N. Halm.⁸⁶

By way of comparison, it has been observed that in general there seems to be less reluctance in Canada to accept government participation in economic affairs than there is in the United States.⁸⁷

Central Banking System and Monetary Policy

The Bank of Canada is very much a creature of the Government of Canada, and that government's policy must be the ultimate determinant of

⁸⁶George N. Halm, Economic System, op. cit., p. 22.

⁸⁷George N. Halm, Economic System, op. cit., p. 22.

monetary policy. However, to be effective, and apart from the expediencies of day to day political pressures, the Governor of the Bank of Canada may exercise a good deal of autonomous influence. The Governor of the Bank of Canada must continually adjust the emphasis on the contradictory elements of monetary policy, namely high levels of employment, price and exchange stability and encouragement of economic growth.

About the only safe generalization that can be made about the effects of a particular monetary policy on business as a whole is that it should be consistent and aim toward a stabilization of economic activity.

The salient fact about Canadian monetary policy is that it is very much dominated by, and in effect at the mercy of, the movement of prices in the United States. Because of the interrelatedness of the U.S. and Canadian economies, and the relative size of each, the monetary efforts of our government can really only hope to mitigate the effects of an inevitable trend, the causes and cures of which are external to the limits of Canadian sovereignty.

Fiscal Policy

Farmer and Richman provide the following cautions and criteria for evaluating a particular country's fiscal policies:

The very complexity of fiscal policy makes evaluation in business terms difficult, and even skilled economists differ sharply in their views about the impact of given policies; however, if the net result of a country's fiscal policy is to create a situation which is stable, which does not distort resource allocation unduly, and which helps create an economic environment in which firms can plan with reasonable accuracy, the policy can be judged relatively successful. If, on the other hand, the country is characterized by extreme resource allocation problems caused by government spending, if prices rise or fall erratically, if government spending enhances booms and deepens depression, this factor may prove to have a large negative effect on efficient firm

management.⁸⁸

When evaluating the effect of fiscal policies on the business environment in a federal political structure such as Canada, it is significant that, although fiscal policy is enumerated and evaluated on a macro or national scale, a large proportion of governmental expenditure is undertaken by the provincial and municipal levels of government. For example, in 1964 when total government expenditures accounted for 18.3 percent of G.N.P., 4.1 and 7.7 percent of G.N.P. was accounted for by provincial and municipal expenditures respectively.⁸⁹ Thus the junior levels of government accounted for almost 65 percent of total government expenditures, over which the senior or federal government may have little control.

Ian M. Drummond in his book, The Canadian Economy, conducted an evaluation of all levels of Canadian government's performance on economic stabilization through fiscal measures by examining government saving. In terms of stabilization, Drummond observes:

If we want to avoid inflation and alleviate depression, we want government saving to rise when total investment is rising, and to fall when total investment is falling. [In the period between 1945-46 to 1961-62] It seems that our governments have a better record than their policy statements would lead us to expect. In eleven out of seventeen cases, [all] government saving moved in the right direction, rising when total investment rose and falling when total investment fell. The federal government record is rather similar - twelve out of twenty. ...

⁸⁸Farmer and Richman, Comparative Management, op. cit., p. 296.

⁸⁹D. B. S. figures from Economic Council of Canada, Second Annual Review, op. cit., p. 151.

No government should be expected to hit the stabilization target perfectly. The federal government cannot tell what the provinces and municipalities will do to their budgets; the junior governments could foil the best-laid federal stabilization scheme. At various times they have done exactly this. But equally difficult is the problem of ignorance. No government can know exactly what businessmen plan to invest, or what consumers plan to buy.⁹⁰

Canada is faced with yet another constraint in pursuing stabilization of its economy in that its external economic relationships are largely concentrated with one international economic partner, the United States.

However, problems notwithstanding, Canadian fiscal policy has considerable room for improvement before it can be said to be contributing fully to the optimum stable environment for economic activity. In paraphrase, the Economic Council of Canada in 1965 pointed to a need for Canadian Fiscal Policies to emphasize long-run stable growth considerations rather than emphasise strategies to offset short-term cyclical instabilities. The Economic Council also felt that the quality of informational inputs into fiscal policy decisions needed improvement.⁹¹

Economic [Price] Stability

Farmer and Richman discuss the general issue of price stability as follows:

An economic system may be said to have price stability when various indices of price changes (such as consumer goods prices, wholesale prices, agriculture prices, etc.)

⁹⁰Ian M. Drummond, The Canadian Economy: Organization and Development (Homewood, Illinois: Richard D. Irvin, Inc., 1966), p. 100.

⁹¹Economic Council of Canada, Second Annual Review, op. cit., pp. 188-191.

tend to remain stable over long periods of time. Perfect stability is not necessary here; small positive or negative movements of up to 1 percent or 2 percent per year are regarded as reasonably normal, given the complex price making procedures in a modern economy. In most industrialized countries, price indices of this type have varied historically, even in stable periods, as much as 3 percent per year for short periods and have had average movements of as much as 2 percent per year over decades.⁹²

Canada, according to data presented by Farmer and Richman for the decade between 1952 and 1962 had an annual average depreciation rate on its currency of 1.1 percent compared to the United States at 1.3 percent and Venezuela at 0.7 percent.⁹³

Control of inflation in the Canadian economy during the decade from 1960 to 1970 was not as successful, particularly in the period from 1965 to 1970. Increases in the Gross National Product Price Index exceeded 3 percent per year during the five year period and exceeded 4 percent in 1966, 1969. Significantly, the same index for the United States followed the same trend and exceeded the Canadian rate for 1968, 1969, 1970.⁹⁴

Canadian-based business organizations must therefore build allowances for price increases into their planning activities but these allowances in themselves could not be considered as seriously limiting, given the overall world trend in upward price movements.

⁹²Farmer and Richman, Comparative Management, op. cit., pp. 297-8.

⁹³Farmer and Richman, Comparative Management, op. cit., p. 298.

⁹⁴Economic Council of Canada, Selected Charts and Tables on Performance and Potentials (Ottawa: Information Canada, April 1971), p. 14.

Organization of Capital Markets

This particular variable is related to the degree of difficulty experienced by users of capital, in this case business enterprises, in obtaining sufficient supplies of capital at reasonable rates.

The organization of capital markets in Canada is well documented in the following references, from which a few general observations and conclusions will be drawn.⁹⁵

The business users of capital appear to be in two distinct categories, the very large and/or foreign-dominated firms and the small to medium-sized business organizations. In the former category, large organizations, the problems associated with capital formation do not stem from a lack of supply of capital but rather from the source of that capital. The problem is that a large percentage of this category's capital requirements are supplied from sources whose ultimate control is external to the Canadian capital market. Although this problem may not, at the present time, be a problem for the organizations themselves, it has been defined, with varying degrees of emotion, as a problem for Canada.⁹⁶ The deficiency of the Canadian capital market is directly related to its size and thus its limits in terms of diversity and depth. Raynaud documents this point with reference to the levels of trading on Canadian stock exchanges and on

⁹⁵William C. Hood, Financing of Economic Activity in Canada (Ottawa: Queen's Printer, 1958) Andre Raynaud, The Canadian Economic System (Toronto: Macmillan Company of Canada, 1967), Chapter 10.

⁹⁶M. H. Watkins, The Task Force on Canadian Ownership of Canadian Industry (Ottawa: Queen's Printer, 1968).

the New York Stock Exchange.

The activity of a stock exchange is measured by the volume or value of the securities traded on it...

The trading in shares in Canada reached 4.4 billion dollars in 1965...On the New York Stock Exchange, trading amounted to about 83 billion dollars in 1965.⁹⁷

Some of the effects upon Canada and upon firms operating in Canada of equity participation in Canadian economic activity by foreigners, (i.e., foreign direct investment), have been explored by A. E. Safarian who observes:

To understand the full impact of foreign direct investment, however, one must dis-aggregate to the level of the industry and the firm. If a parent firm abroad establishes a new subsidiary in Canada, the effect is to increase the amount of capital working with the existing supply of labour and hence the wage rate, or to create new employment opportunities, or both. ...Firms which are competitive with the new firms will find their profits reduced, or less than they might have been, given higher wage rates or lower selling prices or a reduced market share. These competing firms, of course, may themselves be foreign-owned. (Under dynamic conditions it is possible for the profits of competing firms to rise. The new entrant, for example, may introduce selling techniques which increase demand, or introduce cost-reducing innovations, and in each case be unable to restrict the benefits to itself. Or the industry may be a new one, and will attract domestic or other foreign entrants.) A further important benefit arises from taxes levied on the profits of the firm. These taxes reduce the burden on other business residents, except to the extent they are used to attract and subsidize foreign capital.⁹⁸

Safarian further observes that:

Canada has developed rather slowly the organizations which mobilize entrepreneurial capital, such as merchant banks, perhaps partly because for a century banks were limited by

⁹⁷ A. Raynaud, The Canadian Economic System, op. cit., p. 205.

⁹⁸ A. E. Safarian, "Benefits and Costs of Foreign Investment" in L. H. Officer and L. B. Smith, editors, Canadian Economic Problems and Policies (Toronto: McGraw-Hill, 1970), pp. 110-111.

law to a commercial-banking activity with emphasis on the security of loans and deposits.⁹⁹

Safarian's observation brings into focus the problems experienced by the second category of Canadian businesses, the small to medium sized firms, in gaining access to capital. The problem is a traditional one in that suppliers of capital are reluctant to make relatively high-risk loans unless the expected pay-off is also high. The problem is intensified by the fact that almost 70 percent of the assets held by Canadian financial institutions, and thus presumably almost 70 percent of the lending power, was held by the following three classes of financial institutions: Chartered banks 34.9 percent, Life insurance companies 23.4 percent, and pension funds, 10.8 percent.¹⁰⁰ These three types of financial institutions have been traditionally conservative in their lending policies. Development corporations and banks have been established to help alleviate this deficiency in the Canadian capital market. A. Raynaud outlines the structure of these institutions:

The purposes of development corporations as the term is used here are to extend medium and long-term loans to create or acquire enterprises. In recent years a substantial number of development corporations have been established. Roy Nat Limited (1962), a joint venture of the Royal Bank of Canada, La Banque Canadienne Nationale, and three trust companies, is a good example taken from the private sector. ...But most of the others in this category of institutions were started at the government's initiative. ...

Crown corporations of this type or related types were to be found in eight provinces in 1966: Alberta Investment Fund (1966), the Saskatchewan Economic Development Fund (1963),

⁹⁹A. E. Safarian, "Benefits and Costs", op. cit., p. 112.

¹⁰⁰A. Raynaud, The Canadian Economic System, op. cit., p. 275.

the Manitoba Development Fund (1959), the Ontario Development Agency (1963), the New Brunswick Development Corporation (1963), the Industrial Estates in Nova Scotia (1958). ...In addition to these, the federal government proposed on April 26, 1965, to set up a 100 million dollar Canada Development Corporation. ...The Industrial Development Bank got off to a slow start. Even today its operations are modest: in 1962 its net advances of funds did not exceed 42 million dollars and in 1964 they amounted to 23 million dollars. It is not that few small businesses need loans, but the original policy was to make the Bank a lender of last resort, as it were. Thus it must never advance a loan until it has made certain that no other source of credit is available. This rule, which reflects the existence in Canada of particularly strong feelings against the involvement of government enterprises in business, has the unfortunate effect of preventing small businesses from having ready access to long-term credit. (The Industrial Development Bank and to a lesser extent the Central Mortgage and Housing Corporation are two examples of an unfortunate tradition in this country. Initially, private enterprise is incapable of providing certain important services because of a restricted market. The government then sets up enterprises to provide these services, but it limits their activities in many ways: for instance by placing a ceiling on the interest rates they can charge, by strictly defining their services, by reducing their sources of funds from time to time. Thus, the state prevents them from making a vigorous response to existing needs, while at the same time, through the very existence of these enterprises with the competition they represent, preventing or discouraging private business firms from later entering markets that have become attractive with the passage of time.)¹⁰¹

In conclusion, it can be said that the Canadian capital market is composed of both publicly-owned and more privately-owned institutions. One other notable aspect of the capital-formation question in Canada is the dependence upon foreign inflows, the benefits of which appear to be much more easily measured, although not necessarily out-weighed, by the cost to Canadian Society of this component.

Factor Endowments

In outlining this variable Farmer and Richman are concerned with:

¹⁰¹ A. Raynaud, The Canadian Economic System, op. cit., pp. 219-220.

[the] Relative supply of capital and land (agricultural and raw materials) per capita; (and size and general health of the work force)¹⁰²

In the Canadian context, there is no question as to the richness of Canada's endowment of land, i.e., natural resources. Of importance is how the richness of mineral resources, in particular, mesh with other environmental factors and the factor endowments of capital and labour.

The cyclical extremes of the Canadian climate dictate that resource development must either be limited to one season of the year or the mode of operations must be drastically altered to suit the climatic conditions. Most of Canada's mineral resources, for example are remote from domestic as well as foreign markets and thus transportation charges are a significant proportion of most industries' input costs. Another factor, largely unrecognized until the last decade, is the increasing scarcity of the economists so-called "free goods". Concern in Canada over the effects of pollution and consequently less-than-optimal resource management undoubtedly means that industries which previously enjoyed "free" factor endowments in the form of, for example, a huge river into which they could dump their wastes may now incur added costs for that privilege.

Capital goods, the cost of which the firm may not have to pay for directly, or which would cost far too much if provided by the individual firm, are in much shorter supply in Canada than natural resources. In the Canadian context, transportation facilities such as railways and

¹⁰²Farmer and Richman, Comparative Management, op. cit., p. 30.

pipelines are illustrative of the kinds of capital investment that are required by certain organizations to insure their economic viability but that are not necessarily constructed and owned by the people using the facilities.

Of importance also in considering this variable is the amount of capital available per worker in the economy. The assumption being that the more capital equipment at the disposal of a worker, the more productive he will be.

On a comparative basis, the Canadian economy is more capital-intensive per capita than the United States. However, Canadian productivity and income per capita is lower. This sort of anomaly supports the need for a multi-dimensioned examination of environmental variables and their collective influences, as the Economic Council of Canada suggests:

In combination with other factors, a large volume in capital, land and other natural resources may be very important elements in high levels of productivity, but they are not sufficient in themselves to assure the attainment of high productivity and high standards of living. Thus, the main explanation for the lower levels of Canadian incomes per employed person must lie in the differences in the quality of Canada's productive resources, and in the efficiency with which these productive resources are combined in the production process - that is, the scales of output, degrees of specialization, the attitudes and effectiveness of management and labour, and so forth.¹⁰³

Market Size

Farmer and Richman introduce this constraint in relation to whether the total domestic market, and any relevant external market of easy accessibility is large enough, and sufficiently concentrated,

¹⁰³Economic Council of Canada, Second Annual Review, op. cit., p. 61.

to allow reasonable economies of scale in design, location, and operation of resource transformation facilities.¹⁰⁴

The Canadian market is numerically small, but export markets, for certain products, notably raw or semi-processed materials are readily available. The market for processed materials is very much limited by Canada's relatively small population base. If the economic law of comparative advantage were followed rigourously, given Canada's geographic proximity to the United States and the tremendous economies of scale possible in most American production processes, little secondary industry would be located in Canada.

The problem of regional differences in needs and tastes make it difficult for a manufacturer to treat all of Canada as one market, thus a relatively small market by world standards must be further sub-divided. The Economic Council of Canada has alluded to some of the constraints inherent in the small-sized Canadian market compared to the United States in saying:

In manufacturing, relatively short production runs in many product lines tend to lead to more capital overhead in relation to output and less intensive use of the facilities available. In many fields, production is subject to wider seasonal swings in Canada, with the result that more capital facilities may be needed to meet seasonal production peaks, but with lower production rates over a full year. ...In addition, the wide geographic extent of this country, and the sparseness of population settlement outside the major urban concentrations of population, clearly contribute to relatively heavier capital investment in transportation and communication facilities, as well as in various forms of social capital.¹⁰⁵

¹⁰⁴Farmer and Richman; Comparative Management, op. cit., pp. 319-21.

¹⁰⁵Economic Council of Canada, Second Annual Review, op. cit., pp. 59-60.

Social Overhead Capital and External Economies

This constraint is closely related to the capital component in the factor endowment variable except that in this variable emphasis is placed more on the use to which capital is put rather than the availability of capital. An extreme example, in terms of the value of public capital expenditures to business, would be the worth of government-financed railway versus the same expenditure on a palatial mansion for the head of state.

Canadian investment patterns in social overhead capital have, at least in the short-term favored the enterprise component of society with expenditures such as the Canadian National Railway and the St. Lawrence Seaway Project. In comparison with the United States, the Economic Council points out the long-term social overhead investment trend:

In Canada relatively more resources have been put into capital facilities, while in the United States relatively more resources have been put into the development of a more highly educated labour force and into the development and application of new technology.¹⁰⁶

The question of whether emphasis has been optimum for Canada in general, or for Canadian business organizations in particular will be explored in the following four elements.

Literacy Level

The ability to read and write, and to do simple arithmetic calculations is a basic requirement for an individual who must function

¹⁰⁶Economic Council of Canada, Second Annual Review, op. cit., p. 67.

in a modern society. At the national level, Farmer and Richman state:

No modern, developed industrial state has a literacy level lower than 90 percent, while most fall in the 95-99 percent range. High illiteracy levels virtually define under-developed countries. ...It appears to be impossible to develop a modern economy without educating most of the population at the same time.¹⁰⁷

If functional illiteracy is defined as anyone having 4 or less years of schooling, then in 1961 the literacy level of the Canadian male labour force was recorded at 92.5 percent compared to a 94.2 percent literacy level for their American counter-parts.¹⁰⁸ In those terms, if the literacy level of the male labour force can be considered as the most critical to business organizations, the basic literacy level in Canada need not be considered as a constraining factor. Again the caution must be exercised that in certain regions there may exist pockets of society dominated by people whose working language is other than English; that factor may make this variable a constraint to business organizations' effectiveness in an indirect manner.

Specialized Vocational and Technical Training

Farmer and Richman elaborate on this constraint as follows:

The extent, quality, and diversity of vocational and technical training and general secondary education in a given country has a significant bearing on the organizational structures, degrees of work specialization, managerial performance, and overall productivity in

¹⁰⁷ Farmer and Richman, Comparative Management, op. cit., p. 76.

¹⁰⁸ Economic Council of Canada, Second Annual Review, op. cit., p. 81.

industrial enterprises.¹⁰⁹

In evaluating the magnitude of this constraint with reference to the educational attainments of the United States, the findings of Gordon W. Bertram are significant. Bertram found that the median years of schooling received by the U.S. male labour force, in various age groups, exceeded the median value of various Canadian males in the range of one-fifth to one quarter.¹¹⁰ Perhaps even more illustrative of the deficiency in Canada in the area of general secondary education and technical and vocational training is the different emphasis placed on federal manpower training in the two countries. The Economic Council of Canada observes:

In striking contrast to several other countries, most government-financed adult training in Canada is conducted in institutions, rather than in industry. Thus, in Canada, under 5 percent of total expenditures (excluding apprenticeship) is directed to training in industry, whereas in the United States, about 80 percent of federal training expenditures go to programs involving training and "work experience" in industry.[in 1969]¹¹¹

Thus, in Canada, a large proportion of adult training is preparatory upgrading not directly related to a distinct occupational skill. Aside from the technical reasons for emphasising institutional training, it indicates an overall deficiency in the type of formal, pre-labor force

¹⁰⁹Farmer and Richman, Comparative Management, op. cit., p. 82.

¹¹⁰Gordon W. Bertram, The Contribution of Education to Economic Growth (Ottawa: Queen's Printer, 1965.)

¹¹¹Economic Council of Canada, "Working Papers, 39th Meeting of Council" (Unpublished papers, March 1971) p. 6-20.

training that Farmer and Richman identify as critical to organizational effectiveness. In addition to noting the general weakness in this area for Canada as a whole, vis a vis the United States, the range of average years of formal schooling of the labour force by province in 1961 went from a high of 11 years for British Columbia to a low of slightly over 8 years for Newfoundland.¹¹²

Higher Education

As is the case with overall levels of education in Canada, the percentage of the population having university training, or higher education lags behind the American performance in this area. A quantitative measure of this gap is provided by comparing the full-time university enrollment as a percentage of the 18-24 age group in the two countries. In the 1965-66 term 11 percent of this age group in Canada were enrolled in university compared to a figure of 19 percent in the U.S.¹¹³

In relating this variable most directly to organizational requirements, the Economic Council observes:

Canada appears to be particularly far behind the United States in the relative scale of resources devoted to the field of university business education, and university research in this area.

At the first-degree level, U.S. universities have recently been graduating about four times the number of business administration and commerce students produced in Canada per thousand of population. For all disciplines,

¹¹²Economic Council of Canada, Second Annual Review, op.cit., p. 119.

¹¹³Economic Council of Canada, "Perspective 1975", Sixth Annual Review (Ottawa: Queen's Printer, 1969), p. 126.

the number of first degrees being produced in the United States is proportionately about one-and-a-half times that in Canada. It has been estimated that at the graduate level for the Master of Business Administration degree, the ratio has been seven to one over recent years.

...It should of course be recognized that the gaps between the two countries in the stock of the more highly educated people in this field are not so wide, since many Canadians take postgraduate degrees in the United States and return to Canada, and since there is also migration of such people from the United States and elsewhere to Canada. But we believe that the total resources devoted to university business education and related research in this field have been woefully inadequate in Canada, and that this is a field which requires considerable strengthening in a way that meets Canadian business requirements.¹¹⁴

Special Management Development Programs

Farmer and Richman identify this variable as consisting of:

...special management development programs which are not a part of the regular undergraduate or postgraduate higher educational system and which are not undertaken internally by industrial enterprises. They include part time or live-in programs that are offered by various educational institutions, associations, or government organizations with the aim of developing and improving the abilities and skills of existing managers or potential managers who are sponsored by their enterprises.¹¹⁵

The extent of such programs is of course related to the overall base of advanced education facilities, although as Farmer and Richman point out, Canada benefits from various U.S. programs as well as its own.¹¹⁶ Given that Canada has a relatively weaker overall base in higher educa-

¹¹⁴Economic Council of Canada, "The Challenge of Growth and Change", Fifth Annual Review, (Ottawa: Queen's Printer, 1968), pp. 43-44.

¹¹⁵Farmer and Richman, Comparative Management, op. cit., pp. 94.95.

¹¹⁶Farmer and Richman, Comparative Management, op. cit., p. 95.

tion institutions with a managerial orientation, it follows that its special management development programs are less developed. There are however, notable exceptions, and these exceptions again accentuate the regional variances within Canada.

In Alberta, for example, the two provincial universities have well-developed Extension Departments which feature management development programs and the extended seminars held at the Banff School of Advanced Management, which enjoy an international reputation.

Educational Match with Requirements

Farmer and Richman have included this variable as an overall summary category, and with reference to the Canadian context the numerous aforementioned variables are more to the point in identifying specific weaknesses which may have a constraining influence on organizational effectiveness.

As a general observation, relating particularly to the identified weaknesses in Canadian society in supplying people of special talent, there is less indication that within business organizations the need for such people has gone unfilled because of this deficiency. The writer hypothesises that because of the ease of migration among Western industrialized countries, and because multinational corporations tend to recruit within their organizational boundaries rather than within national ones, the demand for purely Canadian managerial talent is not strong enough to justify the scale of "plant" or investment required to satisfy the so-called structural weakness in Canadian society.

CHAPTER IX

Summary, Conclusions, and Recommendations

Summary

This exploratory study has attempted to relate the effects of elements within the Canadian environment upon organizational effectiveness. The Rogers' dynamic systems framework has provided an analytical tool with which a researcher can examine the complex whole of an organization or system in an understandable way by examination of its components or sub-systems. Use of the twenty-nine critical environmental constraints as identified by Farmer and Richman provided a useful point of departure with which to examine the five sub-systems, as delineated by Rogers, of the complex organization that is Canadian society. The exploration of the Farmer and Richman constraints, with particular reference to the Canadian environment, did not proceed without some difficulty.

This analysis has proceeded without regard to the variances in size, structure, and patterns of ownership in Canadian business organizations. This was a simplifying assumption, albeit unstated, that in retrospect does considerable violence to the actual structure of the Canadian Economy. The descriptive examination of the 29 environmental constraints may have been less subject to broad generalization had a particular size, structure, and ownership pattern been specified for the analysis.

Just as it was inappropriate to generalize upon the characteristics of Canadian business organizations, most general statements about Canada needed to be qualified by the caution that regional and/or

provincial exceptions to the general rule existed. In summary, the result was a descriptive albeit cursory, examination of the environmental factors that, with few exceptions, would not readily lend themselves to the quantification needed for the next logical step in the analysis.

Conclusions and Recommendations

The exploratory exercise represented in this study has convinced the writer that the concept of attempting to measure organizational effectiveness, and ultimately national efficiency in the overall resource transformation process, by using the Rogers' dynamic systems framework as a basis has particular merit. It is recognized that the method of analysis postulated by this thesis needs extensive development and sophistication before it could be considered a viable analytical tool. The writer's convictions are supported by reference to work conducted on components of economic growth by an American economist, Edward F. Denison and similar work undertaken under the auspice of the Economic Council of Canada on Canadian economic growth.¹¹⁷

These studies were concerned with the contribution of factor productivity and its components to growth of real national income, factor productivity being defined as: "a measure of the efficiency with which labour and capital are used in production of goods and services."¹¹⁸

¹¹⁷Edward F. Denison, The Sources of Economic Growth in the United States (New York: Committee for Economic Development, 1962) and in Canada, Dorothy Waters, Canadian Income Levels and Growth: An International Perspective, Staff Study No. 23, Economic Council of Canada (Ottawa: Queen's Printer, 1968). General reference to these works is made in the Economic Council of Canada, Fifth Annual Review, op. cit., Chapter Two.

¹¹⁸Economic Council of Canada, Fifth Annual Review, op. cit., p. 20.

Of the 3.8 percent average annual percentage increase in real national income in Canada for the period 1950 to 1962, 2.7 percent was attributable to quantitative increases in the amount of labour and capital inputs while the remaining 1.1 percent was attributable to quantitative improvements in factor productivity. Identified elements such as: effect of demand pressures, effect of weather on farm output, resource shifts, economies of scale, and other identified elements accounted for .6 percent of the improvements in factor productivity. Unidentified elements were attributed with .5 percent or slightly under 50 percent of the 1.1 percent improvement in factor productivity! The Economic Council of Canada admits that the unidentified elements category is in effect a measure of our ignorance and comments further:

This catch-all category includes many things that would bear on efficiency, such as some effects of lower trade barriers on scale and specialization: the impact of improved managerial skills on the organization of production; innovation, and new product and market development: the advance of knowledge and the speed with which new knowledge is effectively brought into use; the attitudes and efforts of both management and labour; and perhaps various noneconomic and institutional factors.

This residual category also includes some factors that affect the quality of manpower and capital - elements not yet measured separately, such as improved health, and some of the effect of more technologically advanced machinery and equipment.

Moreover, even if many of these factors could be measured separately, there would remain great difficulty in this type of analysis in accounting for all of the interactions among the many sources of growth. For example, how does the educational level of managers and employees affect the speed of applying new technology?¹¹⁹

¹¹⁹Economic Council of Canada, Fifth Annual Review, op. cit., pp. 20-25.

Clearly, if the further development of the analytical approach suggested by this paper can help identify these unknown environmental constraints and improve the degree of understanding of their complex interactions, it is well worth the effort involved.

The short-comings of this paper are many, and are largely attributable to the writer's inability to heed the tactful advice of his tutors. The writer's ambitious design of trying to use the whole of Canadian society as the organizational level of development for demonstrating the analytical construct was a fundamental error. This error has provided a learning experience for the writer by improving his appreciation for the diversity and complexity of Canadian society and has encouraged the following recommendations for further development of this particular application of Rogers' dynamic systems framework.

1. The analytical construct of a dynamic systems framework for identifying and ultimately quantifying environmental constraints upon organizational effectiveness in Canada should be applied on a regional or provincial basis.

This examination of Canadian society further indicated to the writer that the five regions of Canada, namely; the Atlantic provinces, Quebec, Ontario, the Prairie provinces, and British Columbia are economic and geographic facts. Each region, under the criteria delineated by Naegele, could qualify, in many respects, as a separate society or organization.¹²⁰ Similarly, each province could be

¹²⁰Blishen, Canadian Society, op. cit., p. 5.

legitimately defined as a unique organization containing the five identifiable systems outlined by Rogers.

2. The analysis should be developed on a comparative basis, either provincially or regionally.

By examining the five sub-systems developed by Rogers on a comparative basis, once the environmental constraints are identified, there exists a basis for comparison, albeit ordinal in magnitude, of the two environments and their effect upon organizations operating within their boundaries.

3. Future studies should not be constrained by only examining the environmental constraints outlined by Farmer and Richman.¹²¹

These twenty-nine environmental constraints are a useful point of departure, but not all are directly applicable, (e.g. literacy level in its raw form), and may not be all-encompassing enough for analysis. The number of environmental constraints may be varied freely, for the analytical boundaries have to be arbitrarily defined by the researcher, as in Rogers' study.

4. The general size, structure, and pattern of ownership of the business structures under consideration should be specified in future studies.

A clear idea about the characteristics of the business organizations under consideration is important because some environmental constraints may not be operative upon all organizations in the same way. For example,

¹²¹Farmer and Richman, Comparative Management, op. cit., pp. 29-30.

a shortage of trained engineers would probably have more serious direct consequences for a manufacturing organization than for a department store.

5. Further research should include an attempt to quantify the relative importance of the various environmental constraints upon organizational effectiveness.

The paper by Mingo and Smith entitled, "A Factor Analysis of the Dimensions of an International Business Environment" could provide a model for the analysis. Mingo and Smith incorporated the data developed by Farmer and Richman in Comparative Management into Biomedical Computer Program BMP 03M for factor analysis in order to determine the relative importance of business-related variables common to the business-related environments of ten nations.

Mingo and Smith used the data gathered by Farmer and Richman who had employed the "Delphi technique" to assign ordinal values (quantitative surrogates) for the environmental constraints, the data on which are in fact highly qualitative.¹²²

Further refinements of the Delphi technique, and use of the data developed by the Economic Council of Canada on factor productivity may enable the further quantification of the various identified environmental constraints.¹²³

¹²²Kent Mingo and Russell Smith, "A Factor Analysis of the Dimensions of an International Business Environment" (Unpublished paper presented at the American Academy of Management Conference, San Diego, California, 1970.)

¹²³Economic Council of Canada, Fifth Annual Review, op. cit., Chapter Two.

Nevertheless, it is unlikely that all the significant variables within the five systems discussed in this study can be easily quantified, so that the broadly qualitative analyses such as those carried out here are contributive to increased understanding of the complex influences and interactions of variables which, although largely viewed as external to the organization, have significant impact upon organizational effectiveness.

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